The newspaper of drug store retailing

April 22, 1991

DRUG STORE NEWS®

Vol. 13 No. 8

A Lebhar-Friedman publication

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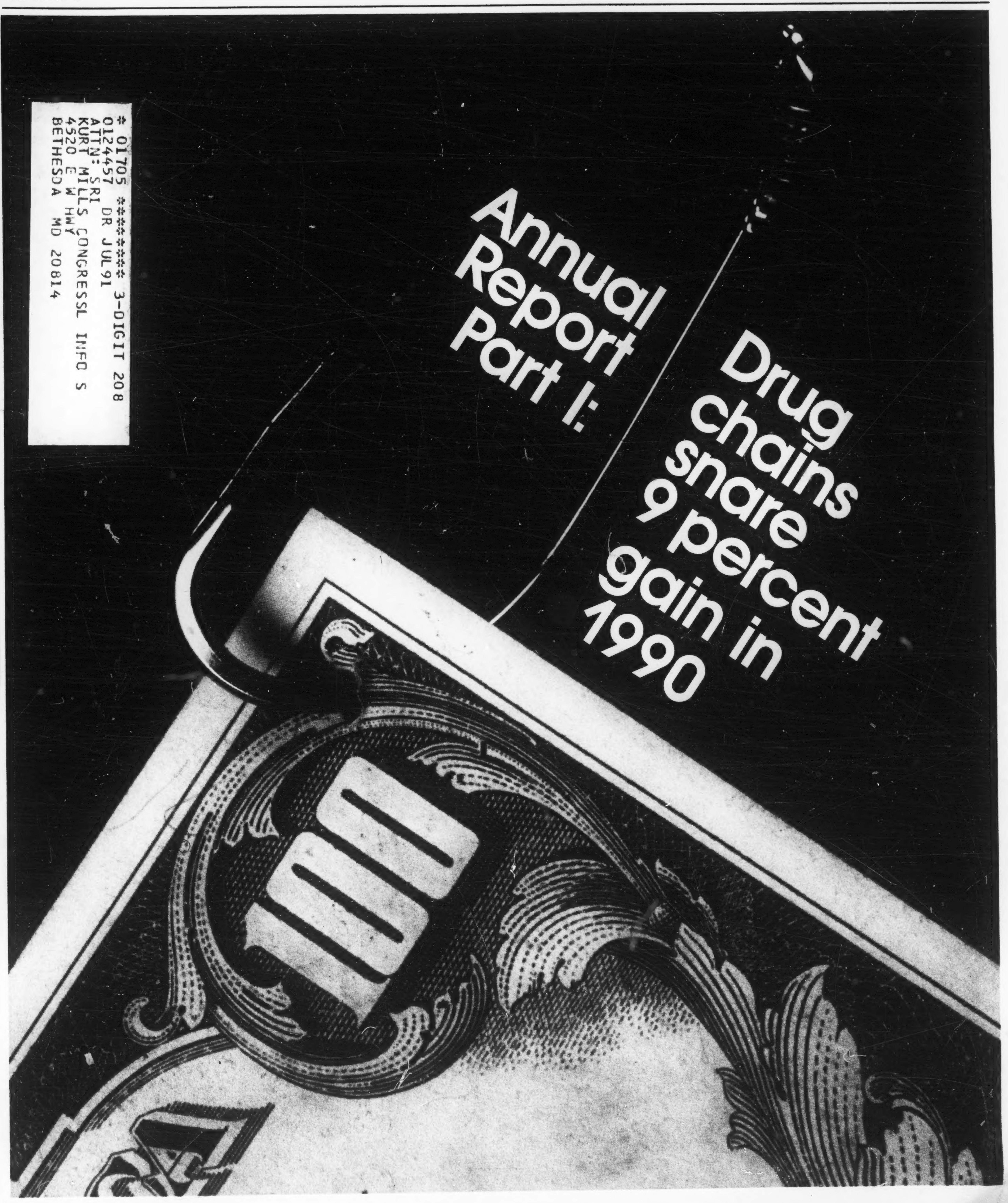

Annual Report Part I:

Drug chains share 9 percent gain in 1990

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The newspaper of drug store retailing April 22, 1991

DRUG STORE NEWS®

Vol. 13 No. 8 A Lebhar-Friedman publication

LATE NEWS

• WOONSOCKET, R.I. — CVS named Frank Hall, director of pharmacy acquisitions, its vp-acquisitions, responsible for store and pharmacy file acquisitions and store divestitures for CVS and Peoples.

• SHIREMANSTOWN, Pa. — Rite Aid filed with the SEC a proposed offering of 4.75 million common shares, with proceeds for corporate purposes.

FEATURES

Rx Place opens first on L.I.

The first Rx Place on Long Island opened with a carefully orchestrated variation on deep discounting. Page 33.

Drug stores get back to basics

Read how drug stores, led by pharmacy, are becoming fashionable again as formats for the masses. Page 6.

Drug Store News
Box 3116, Grand Central Station, New York, N.Y. 10164-0659

SECOND CLASS

Pay Less drives east with Osco buy

By James Frederick

WILSONVILLE, Ore. — Pay Less Drug Stores is making a major push eastward with its planned purchase of 51 Osco units from American Drug Stores. The acquisition, expected to be made final within a month, will give Pay Less a formidable entree into two major new markets—Denver and Salt Lake City—and its first presence in the states of Utah and Wyoming.

(American agrees to sell Alpha Betas in Calif., see pg. 5.)

Pay Less benefits as American downsizes. Pay Less takeover of 51 stores will move the chain into Denver and Salt Lake City. By fiscal year-end Pay Less will operate about 408 stores.

"We are very pleased with this agreement," said Tim McAlear, Pay Less president and ceo. "It affords us the opportunity to enter two new markets with a significant presence from the beginning . . . [and] fits into our overall strategic plan of being a major West Coast regional drug chain."

The acquisition also complements the chain's already aggressive growth plans for 1991, which call for the addition of another 38 new stores and remodeling of 20 others. "All of this activity will bring the Pay Less store count to approximately 408 stores by the end of this fiscal year," said McAlear, "with sales of approximately $2 billion."

By contrast, the sale marks the continued downsizing of Salt Lake City-based American's massive debt load, which reached as high as $3.5 billion after its purchase of Lucky

See **Pay Less** *page 115*

NACDS theme: alliances top business priority

PALM BEACH, Fla. — Chain drug store executives heading to the NACDS Annual Meeting report that this year's theme—Alliance & Progress—is right on target with their business plans. The annual event kicks off April 27 and runs through May 1 at NACDS' "second home," the Breakers Hotel here.

(See events calendar pg. 8.)

Alliances, retailers said, will be the most important business tools in the decade. "The benefits of alliances," explained Rosabeth Moss Kanter, editor of the *Harvard Business Review* and a keynote speaker during the business program, "is alliances allow you to capitalize on the strengths of both parties concerned."

Added Vern Brunner, executive vp-marketing for Walgreens, "Alliance building is important for the '90s and it's time for us to meet face to face, not fax to fax."

There will be plenty of face-to-face interaction during the five-day event. More than 2,300 retailers, manufacturers and spouses are regis

See **NACDS** *page 115*

Fiscal 1991: A very good year for Rite Aid

By Susan Ball

SHIREMANSTOWN, Pa. — Fiscal 1991 was an exceptional year for Rite Aid Corp., in both human and business terms.

The chain and its president, Martin Grass, fought and won a nightmarish bribery case against them and reached successful settlement of the civil defamation suit Rite Aid brought against its original accuser.

Rite Aid commits to SASI, pg. 115

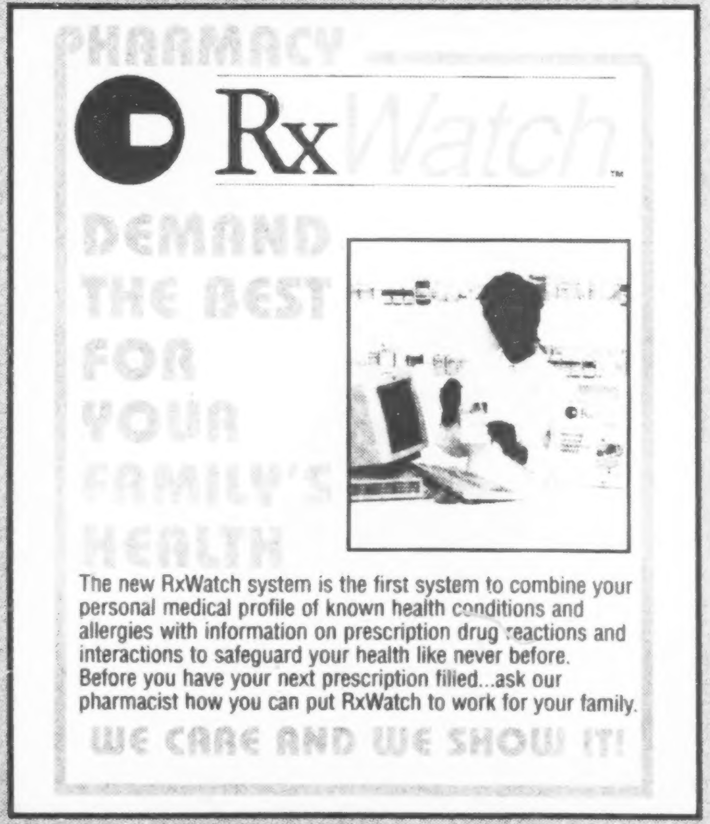
And its fiscal 1991 results, reported this month, include strong sales and earnings gains bearing out chairman Alex Grass's steadfast position that the legal ordeal "had no effect on our business."

Of particular significance was Rite Aid's gain of 7.3 percent in comparable-store sales for the year—the same increase it posted for fiscal 1987, before it embarked on a series of major acquisitions that included more than 700 stores over a three-year period.

See **Rite Aid** *page 115*

HSI Rx computer goes a step beyond

PAWTUCKET, R.I. — The three Hook-SupeRx divisions—Hook, Brooks and SupeRx—are using a new pharmacy computer system, RxWatch, that combines patients' medical profiles with information on drug reactions and interactions.


PHARMACY
RxWatch™
DEMAND THE BEST FOR YOUR FAMILY'S HEALTH
WE CARE AND WE SHOW IT!

The new RxWatch system is the first system to combine your personal medical profile of known health conditions and allergies with information on prescription drug reactions and interactions to safeguard your health like never before. Before you have your next prescription filled...ask our pharmacist how you can put RxWatch to work for your family.

The latter two have recently begun advertising the system: SupeRx under the slogan, "Demand the best for your family's health. . . we care and we show it!" Brooks under the slogan: "Before it goes into your system, it goes into our system."

Going a step further than many other drug chains with different pharmacy systems, Brooks is making its central database of customer profiles available to emergency medical personnel through a 24-hour 800 number, a source told *Drug Store News*. RxWatch users receive an "Emergency Information Card" which medical personal use to access the data base.

Noting that Brooks screens for 59 health conditions and 99 drug allergies, the source said "the main purpose for this is to provide patients with enhanced health care. It opens many avenues for consultation with the patient and physicians on the patient's condition."

HSI executives were unavailable to comment on the system at press time.

HSI is using the software

See **Hook-SupeRx** *page 113*

NEWS IN BRIEF

Drug Emporium to buy Cincy franchise

COLUMBUS, Ohio — Drug Emporium said it has signed a letter of intent to buy the remaining 45 percent of its nine-store Cincinnati-Dayton franchise. Current store management will continue to direct operations, said Gary Wilber, ceo.

Drug Emporium will issue about 1,100,000 shares of common stock to buy the business. The deal is subject to approval of the shareholders of Cincinnati Drug Distributors, Inc., the franchisee.

Also, Drug Emporium said it opened five new stores in March in the Washington, D.C.- Baltimore market, making 17. Wilber said plans are for ten more in the region by year's end.

Super Valu earmarks $121M for Cubs

MINNEAPOLIS — Super Valu Stores has earmarked $121.2 million, or 28 percent of its $434 million capital budget for 1991, for construction of two corporate Cub Foods stores, in St. Joseph, Mo., and Apple Valley, Minn. Four franchise Cubs are also scheduled to open this year. Funds are also budgeted for 10 major remodels of cororate Cub units.

Shopko, Super Valu's 104-store discount mass merchandiser, will be allocated $136 million, or 31 percent of the capital budget, for openings of five new stores and relocations of two units, plus land acquisition.

Cardinal files for public stock offering

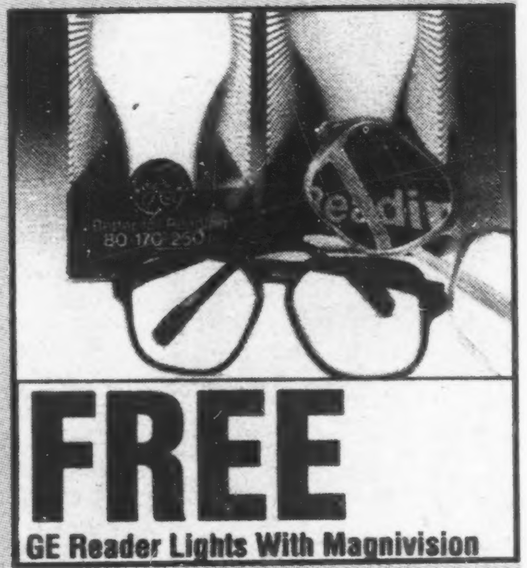
DUBLIN, Ohio — Cardinal Distribution said it filed a Registration Statement with the Securities and Exchange Commission for a public offering of 1.4 million common shares. The wholesaler also granted the underwriters for the offering an option, exercisable within 30 days of the original issuance, to purchase up to 210,000 additional common shares to cover over-allotments.

Underwriters are Smith Barney, Harris Upham, Dean Witter Reynolds, A.G. Edwards & Sons and William Blair & Co.

In other matters Cardinal Distribution has named Gerald W. Medlin to the new position of vp-hospital sales and marketing. Medlin will be responsible for overall sales and marketing for hospital, institutional and other managed care sales, companywide, and will help develop new programs. He will also continue development and marketing of AccuNet, Cardinal's purchasing and inventory management software system for hospital and institutional customers.

Medlin was previously regional president of managed health care for Alco Health Services.

SupeRx offers free pair of reader lights



In an unusual promotion, SupeRx this month offered shoppers two free General Electric Reader Lights for buying a $14-or-more pair of Magnivision reading glasses.

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NII stops FoxMeyer bidding; appoints two co-chairmen

By Elizabeth Richardson

PITTSBURGH — National Intergroup, Inc. took its subsidiary, FoxMeyer Drug Company, off the auction block last month after bidders failed to meet NII's price.

Meanwhile, National Intergroup officials continued their plan to consolidate NII and FoxMeyer at FoxMeyer's Dallas headquarters. As part of that plan, agreed upon last summer, NII appointed Abbey Butler and Melvyn Estrin as co-chairmen of the Board of Directors.

Robert King, currently president and ceo of FoxMeyer, has been named president and ceo of the corporate entity, which will be called FoxMeyer Corp.

During a proxy fight last summer with Centaur Partners, NII had placed the wholesale drug company on the market for a reported $425 million. Interest was widespread in the wholesale drug industry. Reportedly among the potential suitors: Bergen Brunswig. But analysts were quick to point out that such a transaction could have posed antitrust problems.

Other bids did not reflect the company's true worth, said NII officials.

"While we received several bids for this business, they did not reflect the operating potential of the company or the significant positive developments taking place in FoxMeyer's markets and industry," said Butler and Estrin in a company statement.

FoxMeyer's net sales increased 21.2 percent in its most recent quarter, ended December 31, due mainly to additional volume from chain store accounts and strong institutional sales. Higher gross profit margins and improvements in controlling operating expenses resulted in a 71.4 percent increase in operating income, to $12 million in the current quarter from $7 million in 1989.

"Our turnaround has been a tremendous success," King told *Drug Store News*. "Through the first three quarters of this fiscal year, we recorded double-digit increases in sales and operating income. This latest development means we will be able to complete our turnaround and continue to deliver strong returns on investment to our shareholders."

"Our turnaround has been a tremendous success," said Bob King (left), FoxMeyer's president. At NWDA's marketing show in New Orleans, he chatted with Tom Simone and Joe Polastri of McKesson.

McKesson names two operations vps

By Susan Ball

SAN FRANCISCO — Following on the heels of Thomas Simone's appointment as president of McKesson Drug, succeeding Joe Polastri, the giant drug wholesaler has named Hank Wilde, 57, to the newly created position of executive vp-operations.

With these appointments, and the naming of Hubie McMorrow to succeed Wilde as senior vp-operations for the West, McKesson Drug is poised to floor the accelerator on customer service and quality. McMorrow was president of Rawson Drug & Sundry Co., part of McKesson Corp.'s Service Merchandising division.

Since the first of the year, Simone and Wilde have traversed the country, visiting regional staff, distribution centers and customers to gain input on field operations. (Wilde, for example, has traveled on 33 planes, and Simone has spent 75 percent of his time in the field since January.)

The upshot: "We will be working to forge a close, alliance relationship with suppliers and customers, including chain, independent and hospital customers," said Simone.

Toward that end, he continued, McKesson plans to build up its marketing organization and is in the process of recruiting for two new positions, vp-chain marketing and vp-hospital marketing, to develop tailored marketing programs for customers, Simone explained.

Hubie McMorrow

Hank Wilde

The company already has in place strong programs for its 3,300 Valu-Rite and independent customers, he noted.

"The input I'm getting is that we need to do better in communicating with customers and putting together a dedicated customer service component," he added, "so that when a customer calls a DC, for example, he won't be transferred around; one customer service representative will take care of him."

McKesson also has under way new quality-oriented measures, including a customer-satisfaction survey, to see that ordering and delivery are being done error-free, and an employee attitude survey. The findings of these programs, which will be done periodically, will be used to improve quality and service.

Both Simone and Wilde are longtime McKesson executives; Simone joined McKesson Drug in 1973 [*see* Drug Store News *March 4 issue*], and Wilde started his career at McKesson 30 years ago as a credit manager trainee.

Wilde has held various sales and management positions, and was regional vp for the Midwest for six years before moving to the senior vp-operations West position last May.

Both have seen and helped the company make the transition from a manual, decentralized operation to a computerized, consolidated network. From about 110 distribution centers 20 years ago, they noted, McKesson now operates 45 DCs, with five new, larger facilities under construction to replace older DCs. The new St. Louis facility is already up and running on an automated picking system that is handling about 70 percent of pharmaceuticals.

Of the DC consolidation,

continued on page 113

Providing basic needs equals stability

The chain drug report card is in for 1990: Not an "A" year, by any means, but certainly a strong B.

Considering the economic climate, chain drug stores fared well. Sales rose 9 percent to $44.3 billion, and chains increased their share of overall drug store sales to 62 percent. The results showed once again that providing basic consumer needs, especially in health care, confers stability even in recessionary times.

IN THE MARKET
BRUCE BUCKLEY

Not surprisingly the strongest gains were achieved in the core drug store categories, where chains have put the heaviest emphasis. Leading the charge, of course, was pharmacy. Chain prescription departments racked up a 14.4 percent increase, and the price of the average script rose more than $2 to $17.61.

Most of pharmacy's sales gain resulted from the increase in pharmaceutical prices. But there were some unit increases as well, as chains led with a strategy built around heavy health care promotion. Under pressure from supermarket and mass market retailers, the chains took a page from the independents and promoted themselves as neighborhood pharmacies and their pharmacists as trusted community resources. Meanwhile they used increasingly sophisticated computer technology to improve patient service and information and bolster their success in the ever-growing third-party arena.

While pharmacy was the class over-achiever, other pivotal departments were no slouches either. Strong to medium advances were registered in OTC drugs, toiletries, cosmetics, photo and stationery. Less productive were the general merchandise categories. Significantly, consumable categories—particularly candy and high-demand grocery products—had a good year. Chains used their convenient locations to siphon off dollars from food stores. Turnabout is fair play, the chains seemed to say.

In 1991 the economic signals remain mixed, but drug stores for the most part continue to stand up well.

* * *

Often we're asked how we compile our annual industry reports, particularly how we come by all of those numbers that we publish each year. The quick answer is that there is no single information mother-lode. The data is collected over several months from various sources, including surveys that we mail and fax to chains; interviews that we conduct with chain buyers and manufacturers; articles that we've run in the past year; the database maintained by Lebhar-Friedman's *Chain Store Guides;* and, not least, marketing research companies like Nielsen and Towne-Oller.

The information is gathered and analyzed and a reasonable consensus is reached for each of the dozens of individual product subcategories that make up our 20-year-old category database. The increases (or decreases) have to fit like puzzle pieces within a known picture; that picture being the actual overall gain in chain drug sales as provided to us by A.C. Nielsen.

The result is the annual report that you're holding in your hands right now. Next issue we'll report on the individual performances of companies in the industry.

Drug stores' affordable format fits the '90s

The nation's middle class, buffeted by economic winds of hot air, wants to descend from the blistering mast and enjoy life's ride. Put in real terms, people who are used to working 60 hours a week or more to make ends meet look around and see friends who've done the same fall victim to cutbacks.

The '80s were a breathtaking era of consumption. The '90s will be a time when people make more basic choices instead: fresh air, family, less glitz, more spirit.

THE HUMAN SIDE
AL HELLER

One can tick off the reasons for this mammoth shift of consumer attitudes: higher unemployment, the fall in housing prices, mountainous debt, the unmasking of Donald Trump and Michael Milken and the values they represented, and even Operation Desert Storm bringing Americans together toward a higher purpose.

How hard will people run to stay in the same place? I think they'll make different choices—and retailers will have to live with them.

Indeed, luxury car dealers and department store operators have wailed a lot the past year—but all that will help them is changing the way they conduct business if they want to be around when we roll into the *next* decade.

Drug chains, for their part, should benefit by this back-to-basics move. If people give up their Rolexes, they may buy Timexes. If people spend more time together as families, that bodes well for photofinishing volume. If people decide that Cuisinarts and Krups are too costly, they'll opt for Oskar.

And so on, in virtually every category sold by drug chains, which rarely dared to venture beyond middle-class price points for fear they'd lose their customer base.

It was nearly a decade ago when drug chains, looking to broaden their appeal, began experimenting with far-afield formats and product mixes. In search of customers, some operators lost sense of their primary reason for being—and suffered economically for that miscalculation. Most of those tests were short-lived, and by the late '80s the refocus on core health and beauty care categories was well under way.

Today, as drug chains are where they should be—intent on building core business—consumers may be looking to them as one more expression of rediscovered old-fashioned values.

Few frills, no pretense, proven brands at affordable prices. And consultation at the pharmacy—the real backbone of drug stores' image. After all, people will value themselves more and pay greater attention to their personal health care needs during the *we* decade of the '90s.

Drug stores, led by the pharmacies, are formats for the masses, and suddenly that's become fashionable again.

Letters to the editor

Dear Editor:

Much has been written and said about the pharmacist's role in counseling patients about their prescriptions, drug profiles, contraindications, and other aspects of therapy.

On the front page of the March 18, 1991 issue of Drug Store News is a photograph and article describing the marvels of Walgreen's new drive-up pharmacy window.

My question is simply, how does a pharmacist effectively counsel a patient who is sitting outside in their automobile? Are we now being reduced to dispensing "McPrescriptions"?

Thomas J. Nicholson, R.Ph.

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Dearth of new blockbuster HBA products in 1990

Has been impeding growth in drug stores

By Alan Miller

The 57 health and beauty aids categories tracked by Arbitron/SAMI generated just over $8.6 billion at drug stores during the 52 weeks ending December 28, 1990. This was a two-percent rise for the year; insufficient to compensate for inflation or product mix upgrading in a number of categories.

On a unit basis, a three percent annual decline occurred. And during 1990's final 12 weeks, units fell 4.4 percent and the dollar gain was only one percent.

A major reason for the modest dollar growth: the absence of high volume, innovative new products in 1990. Only 20 new brands with the power to produce annual drug store sales of $1 million-plus launched during the year. These brands are identified in the accompanying table, ranked according to their volume during the final 12 weeks of the year (in order to erase the volume level bias for brands introduced early in the year in comparison with those launched in the waning weeks of 1990).

Sales over $2 million

Only three new brands showed 12-week drug store sales above $2 million: Vidal Sassoon Ultra Care shampoo, Dimetapp cough remedy, and Lotrimin Athlete's Foot remedy. Two more new brands enjoyed 12-week sales of more than $1 million: Medi-Flu cold remedy, and Degree stick antiperspirant. Oil of Olay face lotion logged in at $952,000 during the year-end span. Nine of the new brands had 12-week dollar shares below 1 percent.

It should be pointed out that the tabulations presented do not include line extensions, such as Excedrin Aspirin Prep or Arm & Hammer Dental Care gel, which may be regarded by some marketers as new products. Also, the list of the most important new brands doesn't include candidates in such high volume product categories as toothpaste and powder, internal analgesics, or hand and body creams and lotions, which are generally rich in new products.

Lack of innovation

Another reason for HBA's limited growth: the lack of innovation in packaging, ingredients, formulation or creative direction, which often spawn competitive imitations or "me-too" activity which can be counted on to expand category sizes.

In addition to entirely new brands which appeared in 1990, there were also a number of brands which rolled-out into new markets during the year. Here again, the ranking shown is based on year-end 12-week volume, rather than the annual level, since the distribution expansion among these brands took place at different times during the year.

High volume sellers

By far, the most important roll-out brand was Gillette's Sensor razor sets and blades which had some sales late in 1989, but were launched full scale in the first quarter of 1990. This new product was so well received by trade and consumers alike that out-of-stocks prevailed for several months until supplies could catch up with demand.

At the end of the year, Gillette Sensor was by far the dominant brand in the category; its 12-week drug stores volume of $9.4 million was more than twice that of the No. 2 brand in the category, Gillette's own Good News Disposable. Four other HBA brands substantially increased distribution with 12-week movement in excess of $900,000. Eucalyptamint ($2.4 million), Replens Lubricant ($1.2 million), Clearplan Home Testing Kit ($0.9 million), and Bain de Soleil suntan items ($0.9 million). There were three more suntan lotion/oil brands on the roll-out list: Shade, Zinka, and For Faces Only (fourth quarter sales in this highly seasonal category are vastly understated in relation to its potential peak season performance).

Three brands in the high-ranking roll-out list are represented in more than one category of hair care needs: Vital Care (hair setting needs and hair conditioner and rinse), La Coupe (hair spray and hair conditioner and rinse), and Revlon International (both shampoo and hair conditioner and rinse).

Generally, categories that enjoyed the highest annual percentage gains in drug stores nationally are those with new or roll-out activity sufficient enough to expand volume rather than cannibalize sales of established brands. The highest: feminine hygiene deodorants at 49.2 percent.

Other big sellers

During the year, Yeast Gard became the No. 1 brand. It isn't listed in the roll-out table since it was national in the 12-week interval of both 1989 and 1990 although not fully national for the entire two-year period. Annual dollar volume in personal lubricants was enhanced by the national roll-out of Replens, which joined K-Y as a million dollar brand, and achieved a 27.6 percent share during the final 12 weeks of 1990.

Annual drug store sales of external analgesics were 21.3 percent ahead of the year-ago annual level, primarily attributable to the distribution expansion of Eucalyptamint and Flex-All 454. Sales of home testing kits were helped by the addition of new markets for American Home Products' Clearplan, and Lotrimin Athlete's Foot remedy helped to provide a 10.9 percent growth rate in dollars.

In past years, new HBA items could be counted on to snare a high percentage of overall HBA volume. In 1990, however, blockbusters were few and far between.

HBA roll-out brands during 1990 with highest 12-week dollar volume in drug stores

(Period ended December 28, 1990)

Brand	Category	12-week dollar volume (in thousands)	12-week dollar share
Gillette Sensor	Razors and blades	$ 9,423	18.5%
Eucalyptamint	External analgesics	2,379	10.4
Replens	Personal lubricants	1,227	27.6
Clearplan	Home testing kits	993	4.0
Bain de Soleil	Suntan lotion/oil	913	10.8
Vital Care	Hair setting needs	778	3.3
Gold Bond	Foot deodorants and athlete's foot remedies	588	3.5
Beyond	Contraceptives	496	1.2
No Sweat	Stick deodorants	471	1.3
La Coupe	Hair spray	316	0.6
Revlon International	Shampoo	302	0.4
Vital Care	Hair conditioner and rinse	298	0.8
La Coupe	Hair setting needs	289	1.2
Shade	Suntan lotion-suntan oil	252	3.0
Revlon International	Hair conditioner & rinse	206	0.5
No Sweat	Roll-on deodorants	197	1.1
Zinka	Suntan lotion/oil	83	1.0
For Faces Only	Suntan lotion/oil	63	0.8

Source: SAMI

HBA categories with fastest dollar declines in drug stores in 1990

(52 weeks ended December 28, 1990)

Category	Percentage dollar decline vs. year ago	Percentage change in units
Appetite suppressants	−20.8%	−20.2%
Deodorant talcum powders	−13.1	−26.5
Home permanent kits	−12.9	−12.9
Pre-shave lotions	− 8.3	− 9.8
Mouthwash	− 6.8	−11.5
Aftershave lotions	− 6.6	− 8.4
Cream deodorants	− 6.1	−13.0
Hair spray	− 5.1	− 6.0
Infant clothes	− 4.7	− 9.6
Spray deodorants	− 4.5	− 7.8

Source: SAMI

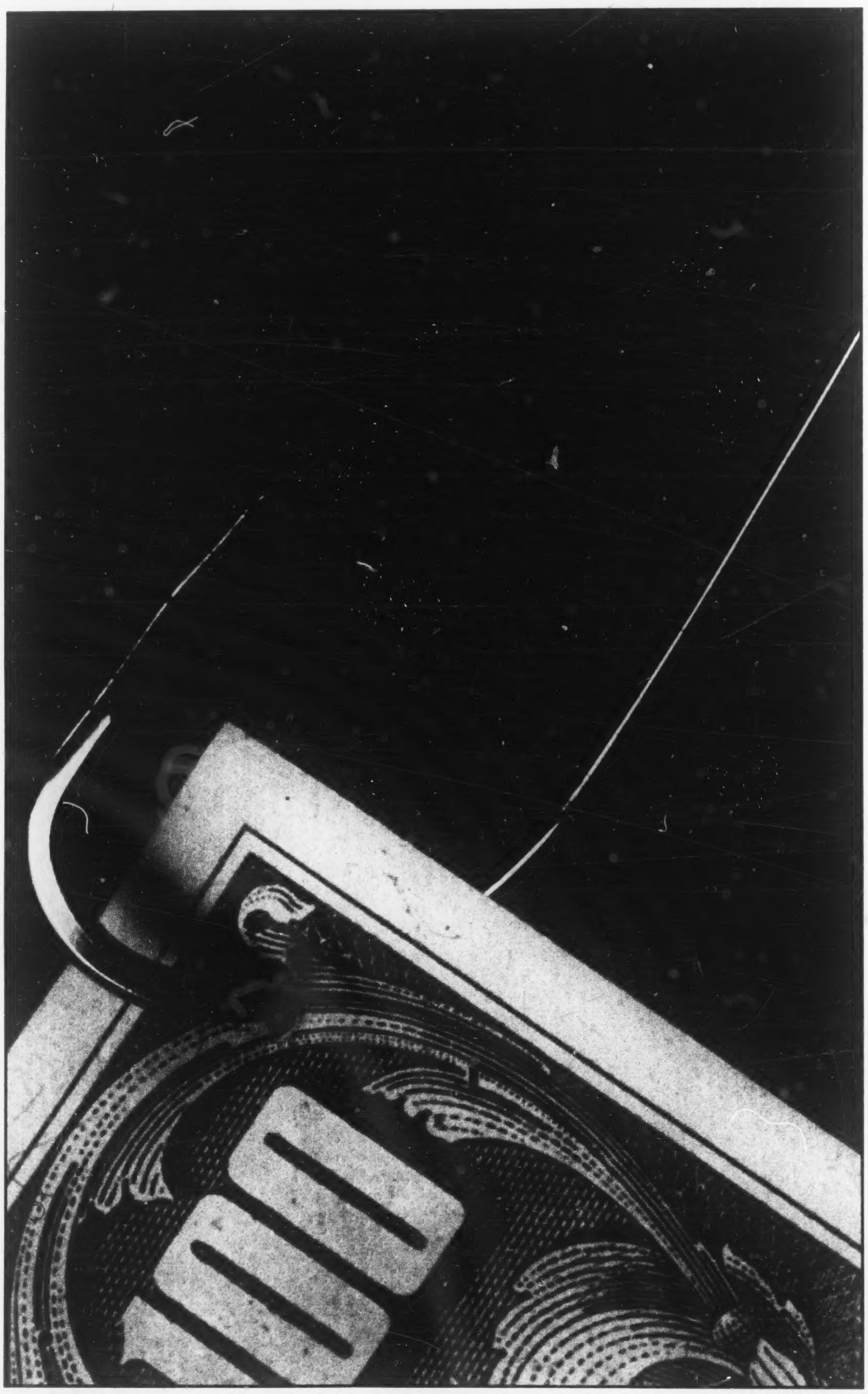
New HBA brands with highest dollar volume in drug stores

(52 weeks ended December 28, 1990)

Brand	Category	12-week dollar volume (in thousands)	12-week dollar share
Vidal Sassoon Ultra Care	Shampoo	$2,617	3.4%
Dimetapp	Cough remedies	2,396	2.1
Lotrimin	Foot deod. & athlete's foot remedies	2,390	14.2
Medi Flu	Cold remedies	1,397	0.7
Degree	Stick deodorants	1,087	3.0
Oil of Olay	Facial preparations	952	2.1
Ocuvite	Nat. vit., min. supplements	778	1.6
L'Oréal Colorvive	Hair conditioners & rinses	695	1.8
Revlon Flex & Go	Shampoo	597	0.8
Degree	Spray deodorants	549	3.0
L'Oréal Colorvive	Shampoo	517	0.7
Degree	Roll-on deodorants	511	2.9
Fisher Price	Shampoo	348	0.4
Sominex Dosage I	Sleeping aids	299	2.9
Caladryl	First aid antiseptics	185	0.5
Jovan Actives	Aftershave lotions	178	0.8
Ninja Turtle Bandages	First aid products	151	0.3
Sesame Street Bandages	First aid products	140	0.3
Jovan Actives	Stick deodorants	133	0.4
Almay	Suntan lotion-suntan oil	54	0.6

Source: SAMI

Convenience, community challenge retailers in the 90s



Last year, American Stores president and chief operating officer Alan Stewart asked his division heads to think about what retailing would be like in the 1990s. He got an earful.

The company presidents, Stewart said, came up with a list of six major themes that were likely to dominate retailing in the coming decade. Indeed, every one of the market forces they named is already having a profound effect on the way drug, supermarket and general merchandise retailers do business.

Most chain drug retailers can guess what they came up with, and could probably add one or two more themes of their own. Stewart came up with these:

- The impact of the environmental movement on manufacturing, marketing and merchandising.
- The search for shopping ease and convenience by time-strapped households with two wage earners.
- The application of retail technology to product distribution, purchasing and merchandising.
- The health and wellness of the labor force (not to mention the availability of enough entry-level clerks and pharmacists).
- The aging of the population, with all that that entails for suppliers of prescription drugs, home health care products, cosmetics and fragrances, etc.
- Increasing involvement by retailers in their own communities.

To that, we could add a few more: the increasing fragmentation and complexity of the consumer base; the growth of the Hispanic, African-American and Asian populations; the increasing shift away from mass advertising and marketing in favor of target marketing and locally tailored stores; the use of POS information and store-level technology to push decision-making down to store level; overstored conditions in many markets; and the growing partnership between retailer and supplier.

Plenty of choices

One thing is clear: in the 1990s, consumers will have plenty of choices about where to buy prescription drugs, HBA, greeting cards, stationery and a slew of other products that define the core of drug store retailing.

Meanwhile, today's consumer is "a mass of contradictions" in the words of one retail analyst, and "sentimental, romantic, and anxious to make his life a little more comfortable," in the words of another, Walter F. Loeb of Loeb Associates.

To compete, drug chains will need an array of strengths: better purchasing and distribution systems; a motivated workforce; a responsive buying department and merchandise mix; a solid capital base; and a strong health- and beauty-care image. What's more, they'll have to practically enshrine the concept of convenience in the 1990s.

Convenient and dependable

"We believe the retailer that wastes consumers' time in the '90s is committing competitive suicide," noted Walgreen president Dan Jorndt recently. "We should simply be there—in convenient, neighborhood locations, taking care of purchases easily and dependably."

Adds his boss, chairman Charles R. Walgreen III, "Retailing is going to change a lot by the year 2000. The days when retail giants like Sears, Kmart or J.C. Penney—or Walgreens—could open a store, stock the shelves, offer decent prices and wait for the customers to roll in are gone forever. In their place, we have the complexity, sophistication and competition that characterize modern retailing."

So begins *Drug Store News'* annual coverage of the $67.8 billion drug store industry. In Part I, we look at the merchandise mix that "brought us to the party" and how it performed in 1990, as well as some of the marketing and display programs employed by drug, combo and off-price chains to move that mix. In Part II we look at the chain drug players themselves, from national giants like Walgreens to tough regional competitors like Arbor Drugs and Big B.

Here's to a successful year.

Executives confront future industry challenges

Martin Grass, president,chief operating officer, Rite Aid

Drug store chains are in a unique position to shape the future of pharmacy service in America.

That is because together, we have led the progressive move toward total store computerization, enabling us to serve our stores, employees and customers better and faster than before. Computers linked to corporate host systems have shortened the distance between stores and headquarters, making it easier for us to keep abreast of trends in the often diverse markets in which we operate.

Perhaps more important is the effect the technological revolution in drug stores has had on customer service at the local level.

A case in point is the pharmacist who now can answer a customer's questions about her third party claim, provide a synopsis of her patient's file or call her doctor to approve a generic equivalent when the computer indicates a brand name is not covered under the patient's plan. All of this can be accomplished within seconds through a few quick taps on the keyboard.

The current economic trends are in our favor. The graying of America and the boom in third party coverage for prescription plans has opened up a wealth of new opportunities for all pharmacies.

And yet, we must continue to develop better tools than those already in place if we are to remain leaders in pharmacy patient care for the 1990s.

At the same time, we must never lose touch with our most important resource for providing better customer service—our employees.

We must harness the talents of store associates and invite them to be equal partners in our success.

The cashier, the store manager and the pharmacist who can greet their customers by name, are in excellent position to put new corporate strategies into place and mold the reputation of chain stores as responsive members in the community.

James Adamson, executive vp-marketing, Revco

The challenge we have today in drug store marketing is the challenge of choice; that is, the significant level of choice enjoyed by our customers, and how we will respond. Today's customers have more retail and pharmacy outlets to choose from, more products to select, and more social attitudes influencing what they do choose.

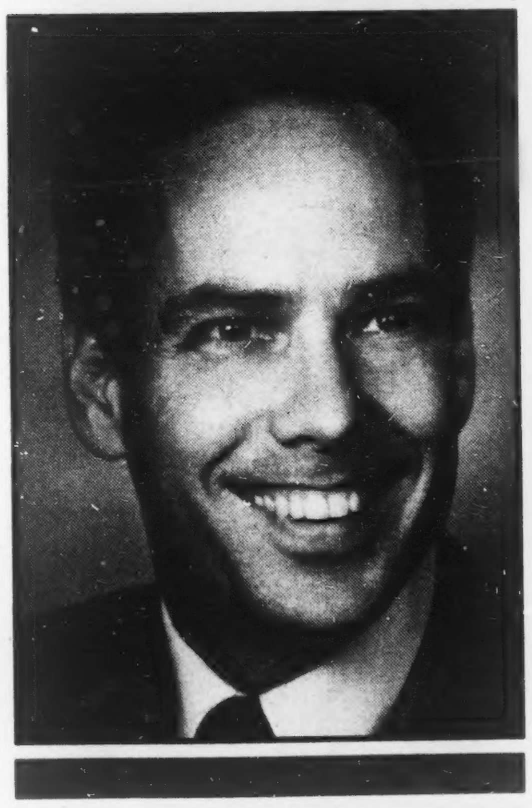
The challenge for consumers is to choose well. The challenge for us is to know how much of that choice-happy group we can call our own.

The saturation point being reached by retail outlets in many of the major markets means that marketers must learn how to creatively target and develop markets, rather than just swallow as many as possible.

There is the challenge of being information-based merchants. Today, good gut-level marketing requires very good information systems. Faster cash registers are not enough. Our systems, whether point-of-sale or pharmacy, must deliver the buying information we need.

We in the industry are consumed with the details of a very competitive business: formats, markets, planograms, promotions—the list goes on. The people most important to us want just the opposite. Our customers want more convenience, less confusion and more consistency. Can we make the choice easier for them? Yes. In marketing to these consumers, whether senior citizens or younger parents, the pharmacy is the key to simplifying the message.

We also must be able to sort out what our customers will pay for and what they are willing only to talk about. While people are more aware and even active regarding social issues, it remains to be seen whether they will choose to buy in support of those attitudes.



Lance Clark, vp-marketing, K&B

In last year's annual report, we in the chain drug industry were talking about the '90s as a decade affected by the shift in the median age of our population and to a more convenience-driven consumer . . . one where the value of full selection and service, easy and accessible shopping plays as vital a role as price in where and what a consumer will buy. These dynamic forces will continue to exert a strong influence on our industry for many years to come.

In the '80s we found that focusing on our core business like HBA, candy, cosmetics and the like allowed us to successfully compete with food and mass. As we evolve into the 1990s, I see our trade class moving toward niche marketing. For years the term niche marketing was the domain of the manufacturer who developed and launched products selectively to meet the needs of a particular population segment. Today, technological advances in the area of point-of-sale, automatic replenishment systems and the growth of the information processing services allow the retailer who chooses to commit the resources an incredibly detailed snapshot of the different consumer segments that impact his stores.

The strength of mass merchandisers has long since been their cookie-cutter approach to marketing and operating their stores. They have forced us to become better merchants and standardize our own operations in order to survive. But the drug store still remains a bastion of individuality—with a uniqueness in product offering and services that is very attractive to today's time-conscious consumer.

How well we exploit this opportunity and differentiate ourselves from other trade classes will depend largely on how successful we are in marketing ourselves to each customer segment—be they black, hispanic, the elderly, blue collar or the emerging family. By the end of this decade, I expect it will be standard in our industry to custom-fit each store's adjacency and product mix to the unique demographics of the neighborhood from which it draws.

The tools now emerging in the area of planogramming and selective target marketing should provide the systems to manage this process without decentralizing many of the functions a chain needs to control in order to compete effectively.

Eventually, I expect our trade class will reduce its dependence upon conventional newspaper advertising and begin to move into consumer-specific marketing—utilizing specific mailing lists for limited distribution to specific demographic niches rather than saturating a market with millions of circulars.

This coming decade, like the one preceding it, will mark the success of retailers who service their customer best and the failure of those who don't . . . with the tools offered up by technology to accomplish this goal outstripping our capacity to effectively utilize them. This will remain one of our biggest challenges over the next 10 years.

Execs discuss challenges of drug store industry

Markus Ernst, Executive vp, chief operating officer, Arbor Drugs

Today's challenges in retailing are greater than ever before. What's the difference between retailers who are successful and those who are experiencing difficulties? I believe the winners are working on shared organizational priorities, from the CEO to the clerks in the stores.

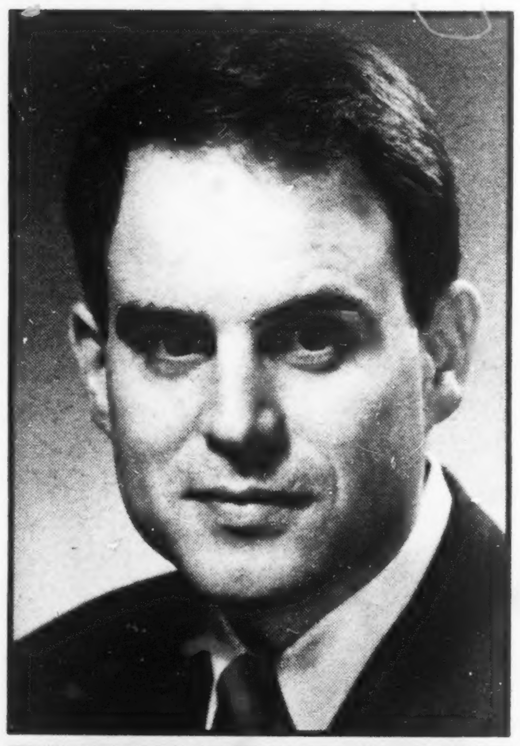
Those companies which are enjoying successes are focused on the true needs of their customers, not what might be the easiest way to do things or trying to imitate what a competitor is doing.

Listening to the customer requires paying attention to detail and being attentive. This also means taking the extra steps necessary to satisfy the customer: being in-stock on a day-in and day-out basis, following through on shoppers' requests and ackowledging every customer courteously.

In every sector of retailing, the common denominator of success is an outstanding store operations team. Superior execution at point-of-sale is often the one area in which a merchant can distinguish its operation from all the competition.

As in prior soft economic periods, some retailers will manage to succeed, stay out-in-front, get their people enthused and build momentum. A consistently strong performance requires the commitment of your total organization to making the customers' priorities your priorities.

Today's customer not only appreciates, but also demands a shopping experience that respects his or her time and intelligence.



Philip Perkins, VP-marketing, Snyder's

How has Snyder's changed or enhanced its marketing in response to changing consumer trends?

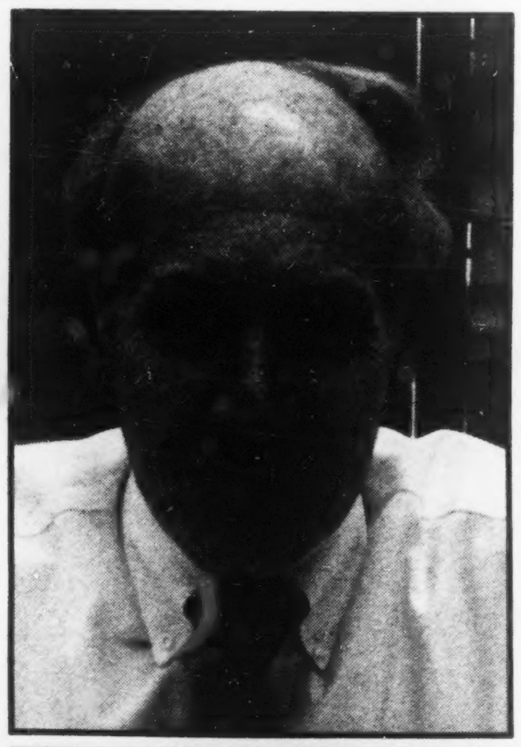
In response to the aging of the population, we have changed store merchandising in order to provide easy access. Our stores have wide aisles and no floorstands or prepacks to block the customer. Our pharmacies will all be at floor level with easy access to the pharmacist. Many stores have patient consultation areas.

Because of the increase of households where both spouses work, our customer is demanding increased convenience. We have long store hours, including two 24 hour locations. We have delivery service available in a number of locations. We provide services such as post offices, package mailing, copy machines, FAX and money orders—all designed to save time for our customer.

To take advantage of the increased number of women working outside the home, we have trained cosmetic consultants available during the stores' busiest times.

With a trend toward more self-medication, our broad assortment of OTC medications are merchandised adjacent to our pharmacies for easy consultation with the pharmacist.

It's becoming more difficult to reach the customer through mass communication vehicles. While we continue to advertise through newspaper inserts, TV and radio, there will be a shift to more direct, target marketing. For example, we feel our prescription customer data base provides us with an excellent direct mail opportunity.



Charles Reinhart, Director of merchandising, Harco

We must adapt to a lot of challenges and opportunities in positioning our stores for the '90s.

The '90s will be a time of new technology and changing trends. It will be a time of continuing changes in demographics, shopping habits and improved customer service.

It will become a time of better relationships between manufacturers and retailers to maximize display efforts and product presentation with better inventory control through deletion of slow sellers and improved in-stock position of key items.

I see the drug store of the '90s as more and more a health center—with added emphasis on customer service, better pharmacy information and consultation with improved pharmacist-customer relationships.

Our drug stores must adapt and change with our customers' shopping habits. We must become more convenient for our customers; we must staff our employees in conjunction within the hours our customers will be shopping in our stores.

More women are becoming convenience shoppers. With more women in the work force as double-household producers and as single heads of households, they have become "time travelers," and as a result our stores and our pharmacies have become very active in the late afternoons and early evenings.

To maximize the most of this opportunity, we must give good customer service and present appealing organized displays to maximize our sales and profits. Another area of opportunity that we must prepare for in the '90s is our increasing number of senior citizens and our aging population.

We must have well-lit stores with easy access shopping. We must also alter our product mix to accommodate our senior customers. We will need to increase our footage to the adult incontinence market and the adult nutrition products. Special diabetes needs and dietary supplements will also need more space. Additional health programs such as diabetic screenings, cholesterol testing and frequent blood pressure monitorings will all improve our overall health store image.

The stores that are positioned for the changes within the '90s will reap the rewards, while those who are not prepared may not survive. We must control our inventories and prepare our stores to our changing customers, we must begin preparing now.

10-year sales trends

(In millions of dollars. 1985 base equals 100[1], 1990 equals 155.8)

Departments	1990	1989	1988	1987	1986	1985[1]	1984	1983	1982[2]	1981
Prescriptions	$13,949	$12,189	$10,717	$9,426	$8,475	$7,669	$6,733	$5,927	$5,105	$4,612
OTC/proprietaries	6,381	5,948	5,362	4,882	4,468	4,087	3,595	3,201	2,879	2,575
Toiletries	4,468	4,134	3,770	3,436	3,230	3,047	2,742	2,457	2,271	2,020
General merchandise[3]	2,895	2,801	2,579	2,023	1,902	2,117	2,009	1,859	1,744	1,568
Tobacco	2,564	2,476	2,364	2,279	2,205	2,127	1,979	1,806	1,702	1,518
Housewares	2,458	2,411	2,245	2,083	2,003	1,676	1,606	1,497	1,389	1,238
Stationery	2,223	2,057	1,810	1,638	1,488	1,352	1,199	1,069	987	888
Cosmetics	2,122	1,998	1,834	1,715	1,605	1,481	1,352	1,205	1,107	976
Photo/video	1,873	1,746	1,547	1,425	1,294	1,235	1,114	1,001	891	791
Consumables	1,762	1,661	1,526	1,433	1,335	1,280	1,209	1,123	1,060	934
Candy	1,556	1,469	1,315	1,186	1,067	973	892	793	753	674
Misc./promotional	999	968	882	817	745	724	657	589	579	562

[1] *Drug Store News* established calendar year 1985 as base year equaling 100. Merchandise growth shown in future census issues will reflect this index.
[2] Calendar 1982 ad prior-year figures restated to reflect change in definition of chains from two or more to four or more stores.
[3] General merchandise and toys are now added together.

Source: *Drug Store News* 1991 survey of drug chains

Dreaded *R* word didn't stop chain drug industry's 9% gain

Tough times breed new solutions. Witness the chain drug store industry, which in the crucible of 1990 forged a more-than-respectable 9 percent gain in sales, to $43.2 billion.

Overall industry sales weren't bad either, with independent druggists chalking up a 6 percent gain to push total drug store industry revenues in the U.S. to $67.8 billion. The gains came in a year in which the economy staged a long-anticipated, well-publicized retreat.

Economists are still debating just when the downturn officially began last year, but it was clear the economy ran out of steam in 1990. The downturn came complete with a bona fide recession (the dreaded "R" word that finally escaped the lips of Washington economists) and a marked decline in consumer confidence, corporate profits, retail spending and stock prices.

All the more remarkable for drug chains, most turned in a respectable Christmas performance as the recession crystallized. What's more, some of them turned adverse economic conditions into record years in terms of profits, lending perfect credence to the old adage that drug stores are recession-resistant. Among the big winners: Walgreens and Arbor Drugs. Other chains used the opportunity to pull off turnarounds and restore profit momentum, including Genovese, Fay's, Kmart, American Stores, Perry and

Continued on page 48

Some drug chains turned adverse economic conditions into record years in terms of profits.

Breakout of 1990 chain drug sales

Department	1990 total chain sales (add 000)	1990 % increase	% of total sales	% gross margins	Average turns
Prescriptions	$13,948,540	14.4%	32.3%	35-40%	6.5
OTC/proprietaries	6,381,260	7.3	14.8	30-35	5.0
Toiletries	4,467,666	8.1	10.3	25-30	5.0
General merchandise[1]	2,895,191	3.3	6.7	15-30	4.9
Tobacco	2,563,502	3.5	5.9	35-45	15.3
Housewares	2,457,899	1.9	5.7	40-45	3.0
Stationery	2,222,536	8.1	5.1	35-40	4.7
Cosmetics	2,122,052	6.2	4.9	35-45	2.2
Photo/video	1,873,001	7.3	4.3	20-25	9.0
Consumables	1,762,372	6.1	4.1	15-20	5.2
Candy	1,556,382	5.9	3.6	25-30	7.5
Misc./promotional	999,198	3.2	2.3	15-20	N.A.

[1] General merchandise and toys are now added together.

Source: *Drug Store News* 1991 survey of drug chains

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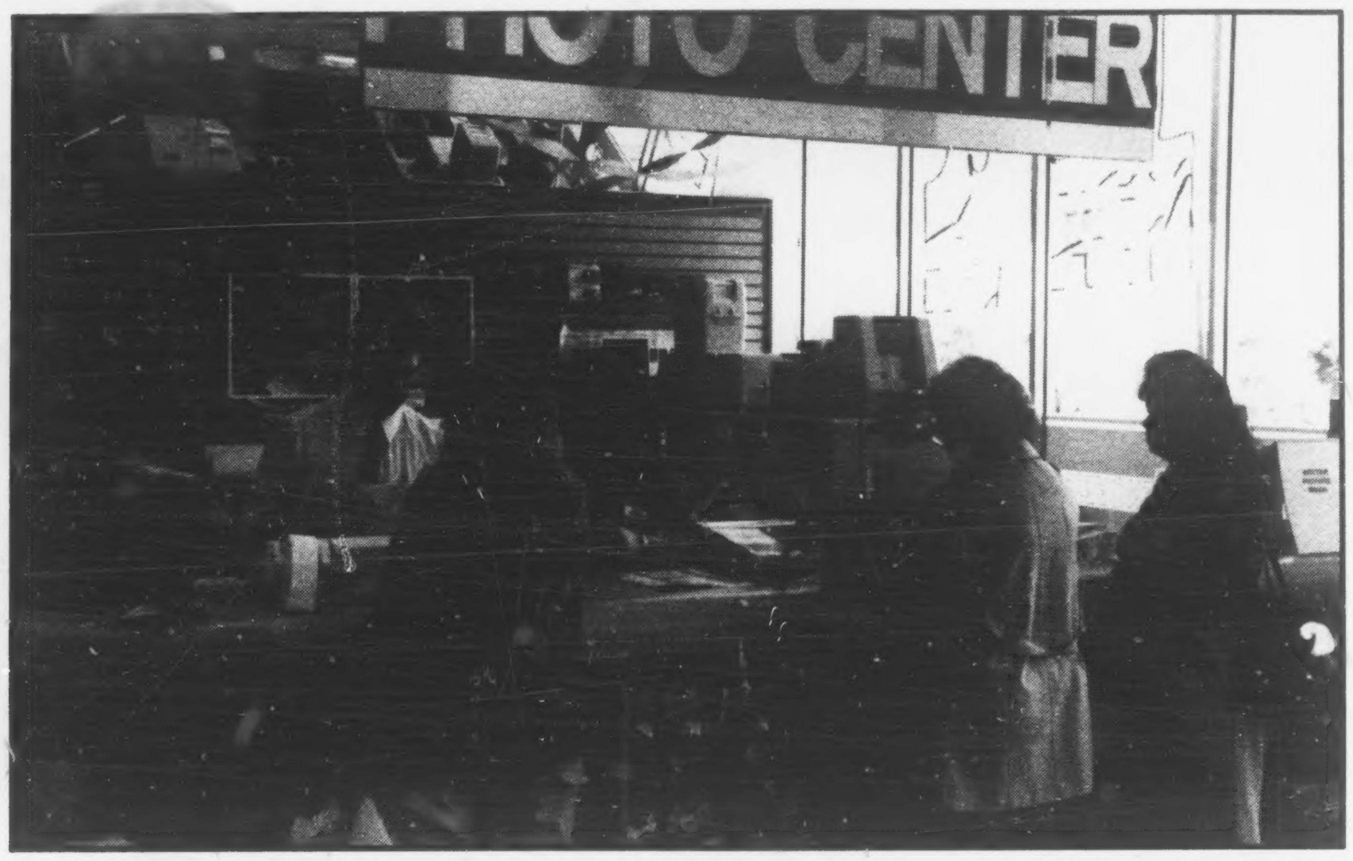
Pay Less, Clackamas, Ore., invests in service and a spacious format to build cosmetics performance.



Minilab and service photo counter help round out store image, traffic and profitability in Genovese, Bay Shore, N.Y.

Indeed, the pharmacy department was again the stellar performer in 1990. Drug chains saw Rx sales jump another 14.4 percent last year, to $13.9 billion. Industry-wide, prescription drugs now account for 32.3 percent of the total business.

Drug industry shows that it is recession-resistant

Continued from 47

Big B.

They did it with cost controls, a more disciplined approach to purchasing and operations, and effective merchandising and pricing policies. Most important, perhaps, the industry turned in sales and profit gains in a tough year by staying sharp and aggressive in the categories that built the business: pharmacy, HBA, photofinishing, cosmetics and fragrances.

"While we are not recession-proof, drug stores are somewhat recession-resistant," noted Perry chairman Jack Robinson in March. "Among the major reasons are that we sell non-durables and we are in the prescription business which, throughout our history, has always continued to grow regardless of the national economy."

Pharmacy is the star

Indeed, the pharmacy department was again the stellar performer in 1990. Thanks in large part to the aging of the population and the continuing introduction of new generations of highly effective but expensive drugs—as well as to their own promotional efforts—drug chains saw Rx sales jump another 14.4 percent last year, to $13.9 billion. Industry-wide, prescription drugs now account for 32.3 percent of the total business.

Cosmetics/fragrance and skin-care items also did well, thanks to consumer trading-up and aggressive chain drug promotion of prestige lines. Many chains have pushed sales by revamping their cosmetics/fragrance departments and adding more service. Given efforts by combo retailers like Kroger Co. and off-price chains like Wal-Mart and Drug Emporium to upgrade the service, selection and ambience of the category, as well, competition should continue to heat up. Walgreens recently announced plans of its own to overhaul its cosmetics departments for the first time in many years.

Efforts to upgrade the photo department at many chains in recent years have also borne fruit. Photofinishing sales were up nearly 10 percent in the nation's drug stores last year, thanks to more aggressive promotions, higher service levels, more prominent departments and the growing use of compact one-hour minilabs in chain drug stores.

Drug retailers found new growth opportunities in items like candy, snacks and groceries, all of which had strong gains in chain drug stores last year.

Walgreens, Chicago, reinforces value image with shoppers in core toiletries.

Photo Center
TIES COMPARE & SAVE

Tightly merchandised checkstand raises turns on impulse goods at Rite Aid, Harrisburg, Pa., and leaves shoppers with positive lasting impression.

Chains see solid gain in cosmetics sales

Drug store chains reported a 6.2 percent gain in cosmetics to $2.1 billion—a solid performance driven by strong sales of lipsticks and lipcolors, mascaras and face makeups.

Genovese, Snyder, Drug Emporium, K & B and Perry are among chains attributing the big pickup in lipstick sales to successful launches of Revlon's Velvet Touch, L'Oréal's Colour Supreme and Cover Girl's Lip Advance.

Mascaras also continue to sell well. L'Oréal's Lash Out, Max Factor's 2000 Calorie, and Maybelline's Great Lash are singled out as top sellers, although a battle is shaping up among the three for segment leadership. Buyers say L'Oréal's new waterproof mascara, Splash Out, and Max Factor's Splish Splash are also selling well.

Max Factor cosmetic products are still on a roll; for the past two years, buyers have reported that every cosmetic it ships is selling. That isn't consistently the case for their skin treatments or fragrances, however, as buyers have noted general softness in both categories.

Face makeups are also selling well this year in chain drug stores, led by L'Oréal's Visuelle, Max Factor's New Definition and Cover Girl's Perfecting makeup.

Prestige fragrances, especially the strongest advertised department store lines, have built a loyal following among drug store shoppers—enough to have led a nearly 7 percent upturn in fragrance sales in 1990. Their success, of course, is having an impact on moderate-price brands such as Vanderbilt, Lady Stetson, Charlie and California.

The two exceptions to that: Navy and Ex Cla Ma Tion, both of which are still selling well and both of which are continuing to receive strong advertising support from their manufacturers, Cover Girl and Coty respectively.

Other hot categories: cosmetic organizers, currently dominated by Caboodles, but soon to have company with Sassaby's, which will be shipping for the back-to-school season (*see Beauty Beat, page 108*). In accessories, Paris Presents And Travel Mates are often singled out as strong sellers, as is Tempo Sanys for its De-mak'Up cotton balls and puffs.

Buyers say that among smaller vendors, Ardell eye lashes and cosmetic brushes move well, and West Cabot is noted for its Clear Complexion Concealer, which many chains are adding to their planograms.

Another upstart category is home fragrances. Coty launched the first mass market line, L'Effleur, last Christmas, with buyers giving it good grades. The problem is where to merchandise L'Effleur: with fragrances, bath, skin or gifts. Only time will tell.

1990 cosmetics department productivity in chain drug stores

Category	1990 total sales (add 000)	1990 % increase	% of category sales
Fragrances	$ 624,260	6.5%	29.4%
Toilet water/cologne	491,252	7.1	23.1
Perfumes	100,842	4.7	4.8
Body sprays	32,166	2.7	1.5
Budget/pegged cosmetics	489,542	3.3	23.1
Nail polish/nail preps	218,326	6.2	10.3
Bath preps	182,451	5.2	8.6
Lipstick/lip color	181,194	9.7	8.5
Eye makeup	173,347	9.2	8.2
Facial treatments	131,985	6.4	6.2
Makeup, powder/cream, liquid	120,947	9.2	5.7
Total	$2,122,052		100.0%

It's smooth sailing for chains with upscale bath/body products

Upscale bath lines have also done particularly well this year, especially around Christmas and Mother's Day. Yardley and Jean Naté gift sets led movement, buyers said.

Some chains, especially those with large stores like Drug Emporium and Pay Less, are starting to weave attractively packaged bath lines like Yardley, Jean Naté, Natural Essence, Sarah Michaels, and more popular upscale HBA bath lines like Neutrogena and Nivea, into a bath care set where lines can be merchandised cosmetically as a family.

Drug Emporium's Kathy Covault says the chain promotes bath more frequently than in the past, sometimes offering gift-with-purchase promotions to generate sales.

Possibly because of the success of specialty stores like The Body Shop, Drug Emporium believes that women now expect to find bath and body products together in one set. Kovault says this approach gives them a chance to make life more pleasant for their customers—and capture incremental sales of companion items such as shower gel, soap and skin lotion.

Small and mid-sized chains, on the other hand, like the idea of upgrading their stores with boutique sets, but worry about where the space will come from and whether they'll confuse shoppers.

"It's a good concept," says Paul Carlson, who buys HBA bath, hair and skin care for Snyder Drug in Minneapolis, "but the problem is where to put it and how to do it without confusing the shoppers."

Snyder's Susan Lund, Carlson's counterpart in cosmetics, is reviewing the bath planogram with him to find space for "significant expansion." Mid- and small-size chains have had to attack this problem before, most recently when they tried to develop skin care centers for their stores.

Not only did buyers have to worry about where to find the space, but also they had to decide where a skin center should go: in cosmetics, toiletries or both.

Now many chains are resolving that problem by putting the set midway between cosmetics and toiletries skin. Chains like Drug Emporium, Eckerd, Genovese and Pay Less have created skin care boutiques in the general cosmetics area, but as close to the adjacent toiletry skin set as possible.

Drug Emporium is also extending its skin center planogram to include an adjacent bath center where lines like Yardley or Neutrogena can be merchandised together as a family.

1990 cosmetics department highlights in chain drug stores

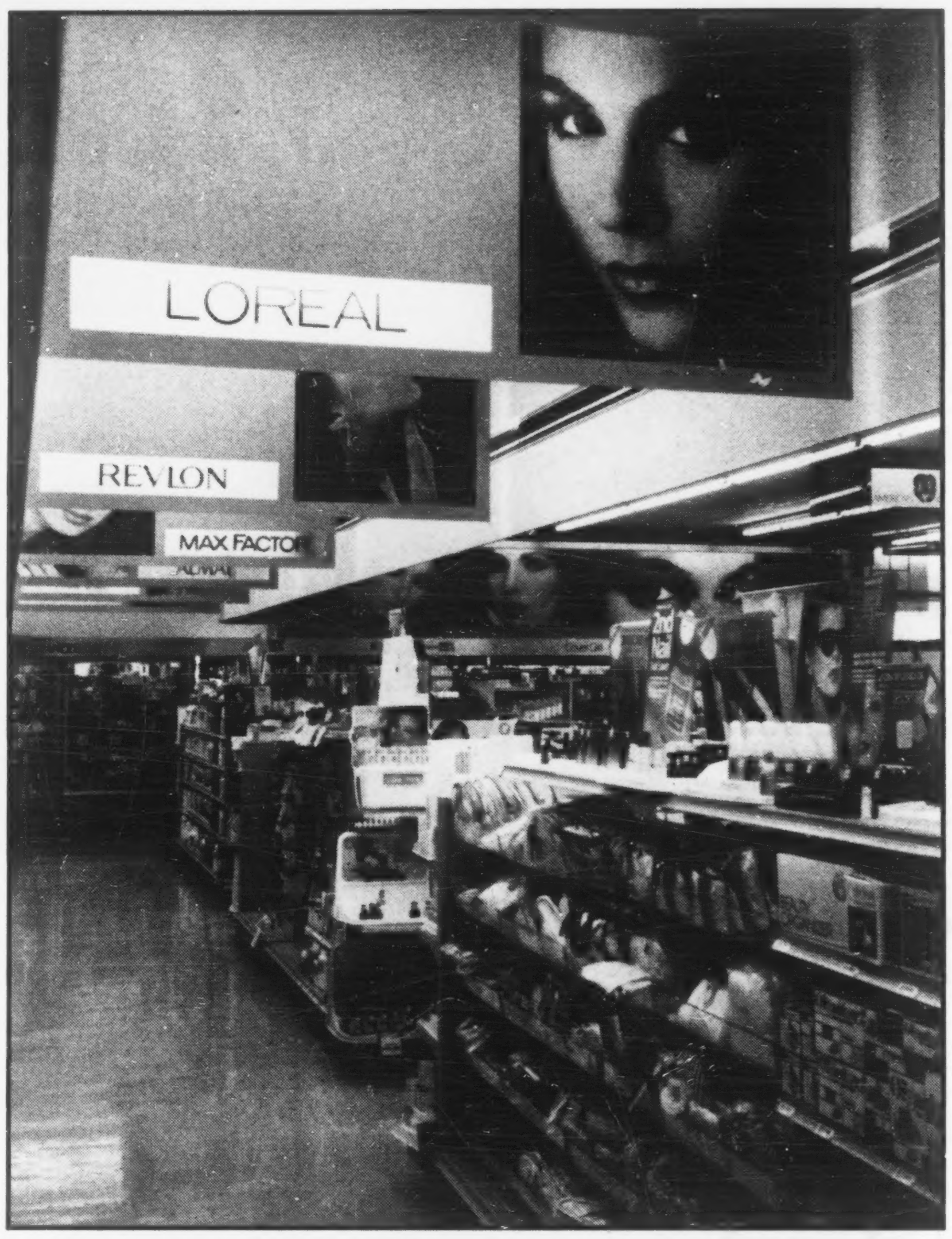
Chain drug cosmetics sales	$2,122,052,000
1990 percentage increase	6.2%
Percentage of total chain drug sales	4.9%
Typical gross margins	35% - 40%
1990 industry profit yield from cosmetics	$742,700,000-$848,000,000
Average annual department turns	2.2

Source: *Drug Store News* 1991 survey of chain drug stores

Most boutiques have cosmeticians or trained clerks staffing them, as at Longs Drug (l), which credits them for strong department sales.

EXPRESS CHECKOUT
L'OREAL
COVER GIRL
MAYBELLINE

Wal-Mart (l) may be a mass merchandiser with rural roots, but it believes cosmetics is a fashion business too. This is the latest prototype in Bentonville, Ark.



Perry (above) capitalizes on the rapid growth of accessories such as cosmetic organizers and bags with fashion centers in its larger stores.

Professional, natural lines boost family HBA

Don Beeler, president of Snyder Drug, recalls his chain's struggle to merchandise professional hair care family lines in a boutique setting several years ago.

As lines like Redmond, Infusium, Demert and TRESemme became available to mass retailers, the more creative and innovative chains such as Eckerd, Walgreens, Arbor, Perry and Snyder grabbed the opportunity to heighten their fashion image and develop a high-ticket, high-profit category.

Today, professional hair care sets are in almost all major drug chains, home, too, to a number of premium-priced "natural-ingredient hair care lines" such as Freeman's Sea Mist and Papaya shampoos and conditioners.

The drug trade class is evolving to the point where some of the large West Coast chains are talking about developing multi-product segment boutiques that would be themed to "natural ingredient" or "environmentally responsible" themes.

To pull off this marketing concept is a challenge to drug chains, say some buyers, because it cuts across categories and involves perhaps four or five product segments: hair, skin, sun, bath, body, and perhaps even children's toiletries.

Buyers such as Genovese's Stephanie Hayter, who've seen Naturistics, the new Del Labs natural care line, say this launch may give them the chance to test whether specialty merchandising of this kind can work in chain drug. Hayter notes the fixtures Del has developed for Naturistics are suitable for endcaps.

The easiest way to test family merchandising of multiple categories is on an endcap because it doesn't disrupt current planograms while giving the line high visibility.

Other buyers said this is how they first tested ethnic cosmetics in their stores. They endcapped a line such as Posner face makeups and lipsticks, and watched its sales.

Since taking this approach, K&B has upgraded its ethnic neighborhood stores to an average eight feet of ethnic cosmetics; that will probably rise again this year as new lines are added to the planogram.

The easiest way to test family merchandising of multiple categories is on an endcap.

SKIN CARE CENTER

Drug Emporium (above) and others create boutiques within boutiques to induce higher-ticket sales and more brand family-regimen sales. Shown: skin care boutique within cosmetics.

Uncertainty in the air over Revlon's future

As this issue went to press, the big question on every cosmetic buyer's lips wasn't brands or segments, but the future of Revlon and its many lines and divisions.

In recent months, buyers' discomfort with Revlon's marketing programs has intensified. The general consensus: a break-up may help the Revlon cosmetic and toiletry divisions get their acts together.

But while Revlon executives talk with a variety of companies—including Procter & Gamble, Unilver, Cosmair and Coty—buyers say they will have to do their planogramming and promotional planning "in the dark."

Some buyers wonder if the Federal Trade Commission would nix an acquisition if Revlon were to be sold in bulk rather than pieces—especially if that sale was arranged with a conglomerate like P&G or Cosmair, both of whom already control a considerable share of cosmetic/fragrance/ toiletry sales.

Regardless of how the situation resolves itself, buyers say they are now prepared to plow ahead with their regular planning despite all the uncertainties.

For enlightened chains, cosmetics are fashion

Some drug chains think they are selling lipsticks and face makeups in their cosmetics aisles. Others—Eckerd, Pay Less, Pay 'n Save, Longs, Perry, Arbor and Sav-on among them—understand they are selling fashion.

The transformation of cosmetics into a fashion center continues to evolve as we cross into the '90s. Shown are examples of the trend.

The wall is still the heart of cosmetics in most drug chains. Here, Arbor Drug uses bright lights, wide aisles and clean fixturing to make shoppers comfortable.

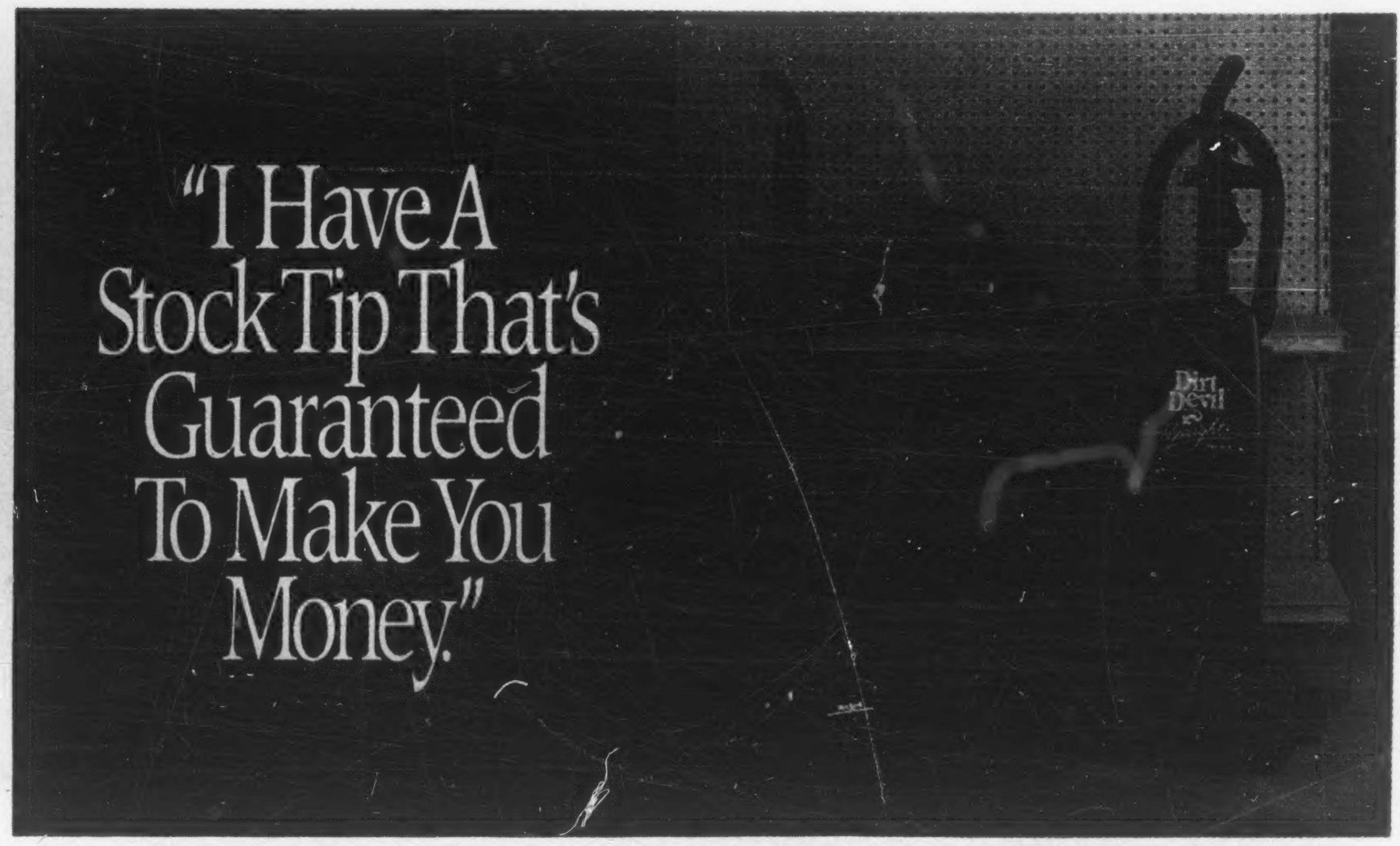
Jewel Osco has lots of traffic, but its cosmetics department isn't always on shoppers' lists. Boutique adds visibility, then women's fashion instincts motivate purchases.

At Genovese, the cosmetics department appeals to shoppers' sense of aesthetics: it is clean, bright, airy and overflowing with flowers and perfume bottles.

Clarion
MENS SHOP
LOTIONS

Crown Drugs lures shoppers to its cosmetic wall by merchandising the latest products and shades on a gondola adjacent to its nail center, men's colognes and lotions.

Standard Drug gets consumers to the wall by devoting space to attention attracting categories: gift sets and fashion promotions.



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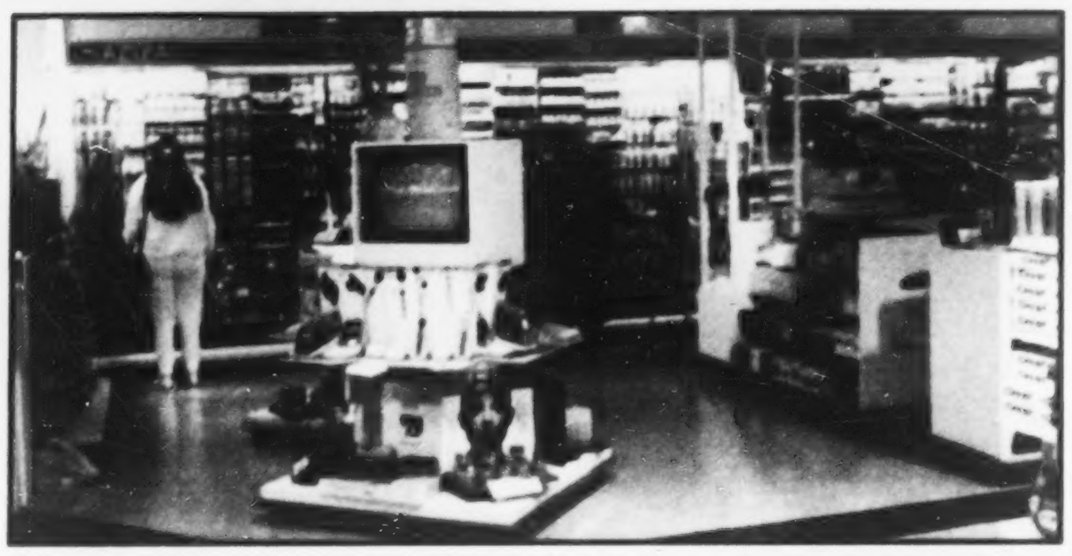
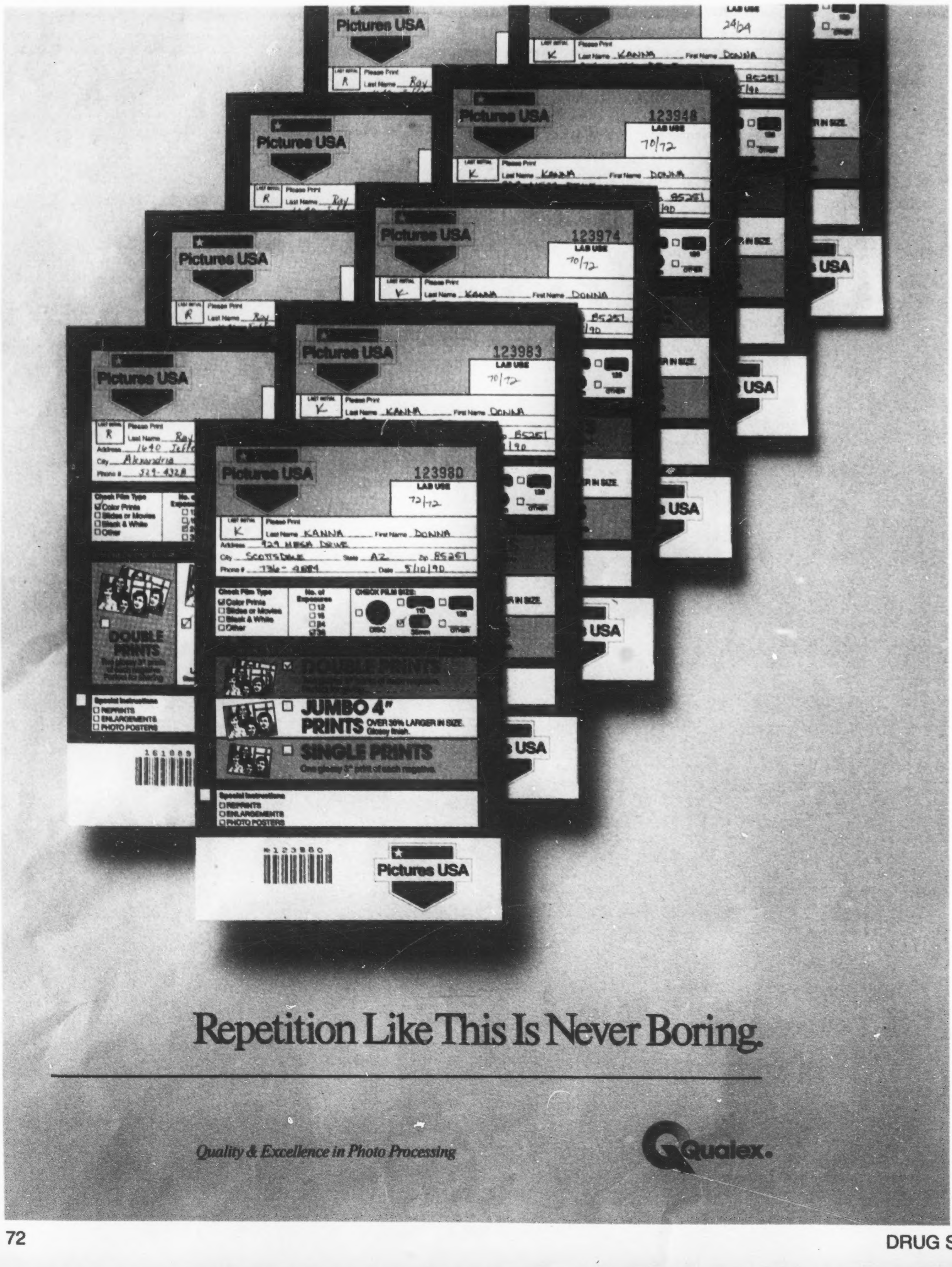
Service cosmetics bullpen in Snyder Drug's prototype, Eden Prairie, Minn., maintains files on shoppers.



Vons Pavilion, El Monte, Calif., develops displays with video and overhead graphics that signal fashions and emphasize brands.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New players in ethnic cosmetics

Ethnic cosmetics has been having a strong year, and the future is looking even brighter as more major players move into this category.

Posner, for instance, continues to sell well in African-American neighborhood stores. No one questions its position as the strongest brand in the category—driven by its advertising, fashion- and price-value-promotions.

Now, however, Maybelline and Almay are launching ethnic lines, and two major budget manufacturers, Artmatic and Pavion's Wet 'N Wild, are also backing lines targeted specifically to women of color.

At press time, most buyers had already seen the Maybelline line and their initial reactions were very positive. Stephanie Hayter of Genovese and Susan Lund of Snyder both welcomed a major company's presence in the category. They both felt the Maybelline line, Shades of You, will start well, especially if promised advertising materializes.

"We're glad to see more manufacturers get in," said Donna McManus, cosmetic buyer for K & B in Louisiana. K & B, like many chains, plans to expand its ethnic cosmetics planogram and is reviewing several other lines that might make good additions to their set.

Among them: Shades of You, Simply Satin, Almay, Tropez from Artmatic and the new Wet 'N Wild ethnic line: Black Radiance.

Style drives hair accessory sales

Increased emphasis on grooming and health are propelling sales of hair accessories including implements (combs and brushes), and hair and head ornaments.

While impulse sales are important on items under $2, today's customer also seeks out value in items such as barrettes and—strong performers in 1990—head bands and hair wraps. Head bands are a perenially strong performer. Hair wraps should stay strong into 1992, industry sources feel.

"It's become a basic part of dressing for most women today," one source observed of head bands and hair wraps.

Also strong in 1990 was the "ponytail" category.

The fashion element of course is key in the high-margin segment. For 1991, Goody is betting on its Sport line of hair accessories with a sporting feel to them in bright colors and in black.

New vendors have entered in both the mass merchant and department store ends of the business, challenging in drug stores such heavyweights as Goody, Sekine, Conair and Wilhold.

1990 toiletries department productivity in chain drug stores

Category	1990 total sales (add 000)	1990 % increase	% of category sales
Face cream/skin care	$ 670,058	12.9%	15.0%
Deodorants	488,420	6.6	10.9
Men's toiletries	478,487	7.9	10.7
Shampoos	434,855	7.5	9.7
Hair color	362,910	5.4	8.1
Ethnic (incl. black cosmetics)	287,539	5.3	6.4
Rinses & conditioners	280,784	9.3	6.3
Body creams & lotions	212,393	7.7	4.8
Razors/blades/disposables	202,702	9.9	4.5
Hair sprays	187,061	5.6	4.2
Hair accessories	171,075	8.2	3.8
Suntan/sunburn	119,719	6.9	2.7
Sun protection	117,238	9.0	2.6
Styling aids	92,550	7.3	2.1
Shave creams	69,546	3.9	1.6
Perms/straighteners	29,783	6.7	0.7
Depilatories	15,101	5.4	0.3
Miscellaneous	247,447	8.3	5.5
Total	$4,467,666		100.0%

Source: *Drug Store News* 1991 survey of drug chains

1990 toiletries department highlights in chain drug stores

Chain drug toiletries sales	$4,467,666,000
1990 percentage increase	8.1%
Percentage of total chain drug sales	10.3%
Typical gross margins	25% - 30%
1990 industry profit yield from toiletries	$1,117,000,000 - $1,340,400,000
Average annual department turns	5.0

Source: *Drug Store News* 1991 survey of drug chains

Skin care growth . . .is led by facial and specialty lotions, hand and body lotions, and facial cleansers. A spate of new launches has made this category "highly volatile," one buyer said.

Premium-priced hair/skin/bath products shine at chains

Chains that have developed full [bath] planograms . . . have experienced sales gains as high as 30 percent.

The continuing success of premium-priced hair, skin and bath care lines at chain drug stores were bright spots in toiletries this past year.

Higher tickets on such brands as Pert Plus, Ultra Care and Colorvive drove hair care volume. In skin care, acceptance of Plenitude and aggressive marketing Oil of Olay, Neutrogena and Nivea boosted sales.

Bath care is also growing at a fast rate due to new launches and merchandising programs. Chains that have developed full planograms or boutiques have experienced sales gains as high as 30 percent.

Hair

Two-in-one shampoos and conditioners are spearheading advances, along with volumizers, hair colors, alcohol-free formulas and shine enhancers.

Buyers report on recent launches: "good growth" for Vidal Sassoon's Ultra Care three-in-one shampoo/conditioner/rinse and L'Oreal's Colorvive; Pert Plus still sells well in the face of escalating competition; and Frizz-Ease has been called "phenomenal" by merchants who were among the first to stock it.

Professional hair care brands like Aussie and Infusium are continuing to do well in chain drug stores, but their growth today is less than 10 percent rather than double digits, indicating possible saturation, buyers indicate.

Pert Plus still leads the two-in-one segment at chains such as Perry Drug in Detroit and Duane Reade in New York, which Perry's assistant vp-toiletries Scott Gorley attributes to the brand's advertising and product quality.

Merchants across the country are also reporting more growth in hair color, led by Clairol and L'Oréal. And they cite moderate growth in value-priced brands such as White Rain and Suave. They point to styling aids as a category bright spot.

Skin

Skin care growth in chain drug is led by facial and specialty lotions, hand and body lotions, and facial cleansers. However, a spate of new product launches has made this category "highly volatile," one buyer said.

Susan Lund, cosmetics buyer at Snyder Drug in Minneapolis, regards franchised skin care as a 7 to 8 percent growth area, but if she were to include Plenitude, which is an HBA line, growth would approach 15 percent.

Her list of category favorites: eye creams, Plenitude Liposomes moisturizer, frozen eye packs applied like a mask, such as Eye Packs from Paris Presents, and Bonne Bell Ten-O-Six.

At Duane Reade, president Eli Cohen likes Plenitude and Oil of Olay's new line of cleansers and Refreshing Toner, which he said "surprised us with its turns."

At Perry, said assistant vp-toiletries Scott Gorley, HBA skin care growth approaches 10 percent. Category volume is led by Oil of Olay, followed by Neutrogena, Nivea, Lubriderm and Curel.

Eckerd Drug merchandises sun care year-round in Sunbelt stores. Endcap heightens visibility of best sellers.

Skin care is also showing up well at deep discounters.

At Drug Emporium, for instance, senior cosmetics buyer Kathy Covault cited Plenitude as a best-seller, followed by Oil of Olay, Almay, Clarion, some SKUs from Revlon's Eterna 27 and European Collagen.

Covault says Plenitude's newest and most expensive item, Action Liposomes, is doing "great. No problems at all with the price point."

Also hot here: skin care moisturizers that are sun blocks, she said.

Continued on page 76

Premium-priced hair/skin/bath items bright spot at chains

In the hair care department, styling aids are still top sellers, especially price-value and semi-professional lines.

Some drug chains report 20 percent to 30 percent dollar sales growth in bath care over the past year.

Continued from page 75

Some drug chains report 20 percent to 30 percent dollar sales growth in bath care over the past year.

Perry's Scott Gorley attributes most growth to new launches—and to a doubling of footage for skin-bath during 1990. Jean Nate, Vitabath and Raintree are three of the category's premium best sellers—all merchandised in HBA rather than cosmetics for faster turns in higher traffic toiletry aisles.

Other good sellers at the chain: Neutrogena, Dep's Nature's Family, Fruit of the Earth and Perry's private label bath items, and in the lower price range, Calgon, Jergens and VIC.

Cosmetic soaps, which Perry stocks seasonally as gift items, are also popular, Gorley said.

At Douglas/Maxidrug, bath is up around eight percent, better than most toiletries, said buyer Steve Dubin. One leader: the new Capri line of soap, tablets and powders from Northern Labs.

He recently moved the Bonne Bell bath line from cosmetics to a higher identity placement in the toiletry bath set. The move is too new to be evaluated, though Dubin anticipates stronger sales due to better accessibility.

At Snyder bath is one of Susan Lund's highest growth segments, led by upscalers Vitabath, Vitabath Plus, Jean Naté and Petite Naté. Also selling well: bath and body products from fragrance vendors, such as Ex Cla Ma Tion, Vanderbilt, Charlie and Krystle, and older brands such as Emeraude and Chantilly.

Drug Emporium's Kathy Covault said her bath care sales have been helped by the chain's merchandising strategies for the category: more promotions and more department store strategies such as gift with purchase. The chain runs at least one promotion a quarter with Vitabath, with some featuring on-pack GWPs. With Jean Naté, Drug Emporium usually runs one promotion a year, generally a bonus size or other consumer value as opposed to an on-pack.

Sun care

Sun care had a partly cloudy 1990. Weather in the northeast prompted Douglas/Maxidrug, for example, to return 40 percent of its inventory last year.

For 1991, buyer Steve Dubin says he has bought more cautiously, dropping slow movers and playing up proven winners: Coppertone, Hawaiian Tropic, Bain de Soleil, Banana Boat and a popular regional line, Nantucket Gold.

The proliferation of complete bath lines such as Fa, Sarah Michaels and Natural Essence make it easier to boutique bath.

In sun protection, he is sticking with Pre Sun, Sundown, Shade, Ti-Screen, Neutrogena and Almay.

He anticipates a good showing by the new sport formulas being offered by Coppertone and Bain de Soleil. As the latest innovations in sun care, they promote their "sweat-proof" formulas as a point of difference.

Dubin says it's a little hard to forecast because of the economy and their higher price points. But he fells that with enough advertising, enough people will demand sun protection products that adhere even when wearers are engaged in activities that make them sweat.

At Perry in the midwest, the weather wasn't great last year either, but the chain still had a good sun care season. Sales got 16 percent hotter, said assistant vp-toiletries Scott Gorley, led by Coppertone, Hawaiian Tropic and Bain de Soleil, and followed by Banana Boat, Sundown and Pre Sun. This year, Perry will add Panama Jack to its sun care planogram.

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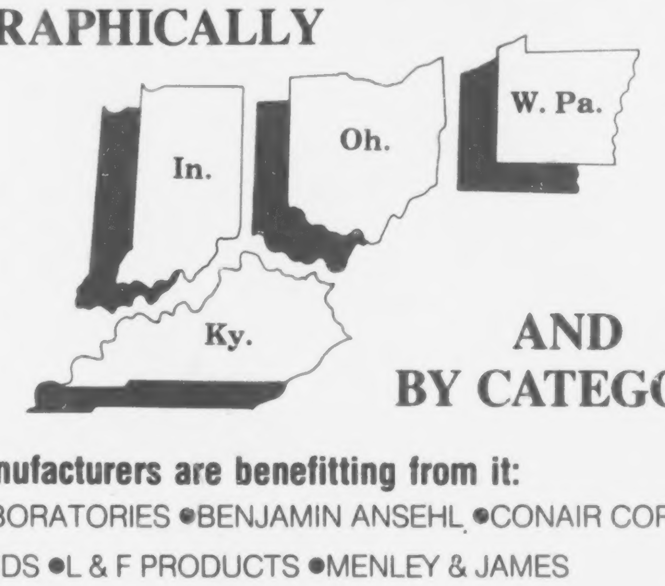

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Ethnic merchandising's new methods spur sales while hair color generates double-digit growth

Drug chains are adopting new merchandising strategies to help spur ethnic HBA growth in specific neighborhood stores.

Radio advertising reaches ethnic consumers and the young shopping audience sought by merchants, so it has moved front and center.

Planogramming has become more precise, as chains grow quicker to drop slow turners and bring in new fashion goods.

And distributor service is being chosen over warehouse programs at some chains. Eckerd was one of the first major operators to go this way, and sources say Revco may soon follow.

Distributor service

"If only 30 percent to 40 percent of my stores are receiving shipments of ethnic products, it makes no sense for me to tie up inventory dollars by warehousing ethnic. I get better turns and a better ROI by using a distributor," one source said.

Kent Humphreys, co-owner of Jack's Service Company of the U.S., in Oklahoma, cited ethnic's fast turns and high volume as plusses, while conceding "the economy and the war have hurt the black community. But when things get tough, retailers clear up their system. They review where they get the best ROI: from their warehouses or distributors. They look at ethnic neighborhoods" and alter inventory to suit demand.

> Distributor service is being chosen over warehouse programs at some chains.

What's hot

Ethnic has some sizzling segments: spritz and hot oil. New Era and J.M. Products both have two of the best items in these categories, buyers said.

Culver's TCB Hot Oil is also selling well, and buyers think that the new Hot Oil that Luster is launching will also be a winner.

Hair color has been generating double-digit growth in ethnic, the majority of our sources say.

Carson's Dark & Lovely is spearheading the explosion, with some trade executives reporting 50 percent-plus unit sales gains over the past six months.

Since buyers don't think many more African-American women will color their hair, the consensus is that Dark & Lovely is taking share from general market lines such as Clairol and L'Oreal.

However, as more chains improve their hair color and cosmetics shade varieties in ethnic neighborhood stores, African-American women are finding ample product selection.

As a category, hair moisturizing products are also showing double-digit growth, with almost every brand in the segment doing well.

New makers, new lines

Ethnic cosmetics are also selling well, and buyers expect further growth as new lines from Maybelline and Almay reach the market, and as Artmatic and Wet 'N Wild roll out their new lines of budget ethnic cosmetics.

Gels formulated for use on relaxed hair are also selling well, although some distributors are starting to cut back on their assortment.

One source felt the most productive way to merchandise relaxer gels is to go with a strong-selling higher-price brand like Worlds of Curls Relaxer gel, then include perhaps two medium-priced gels and a low-end gel.

In some sections of the country, however, curling gels, which was one of the strongest growth segments just three years ago, is showing precipitous declines.

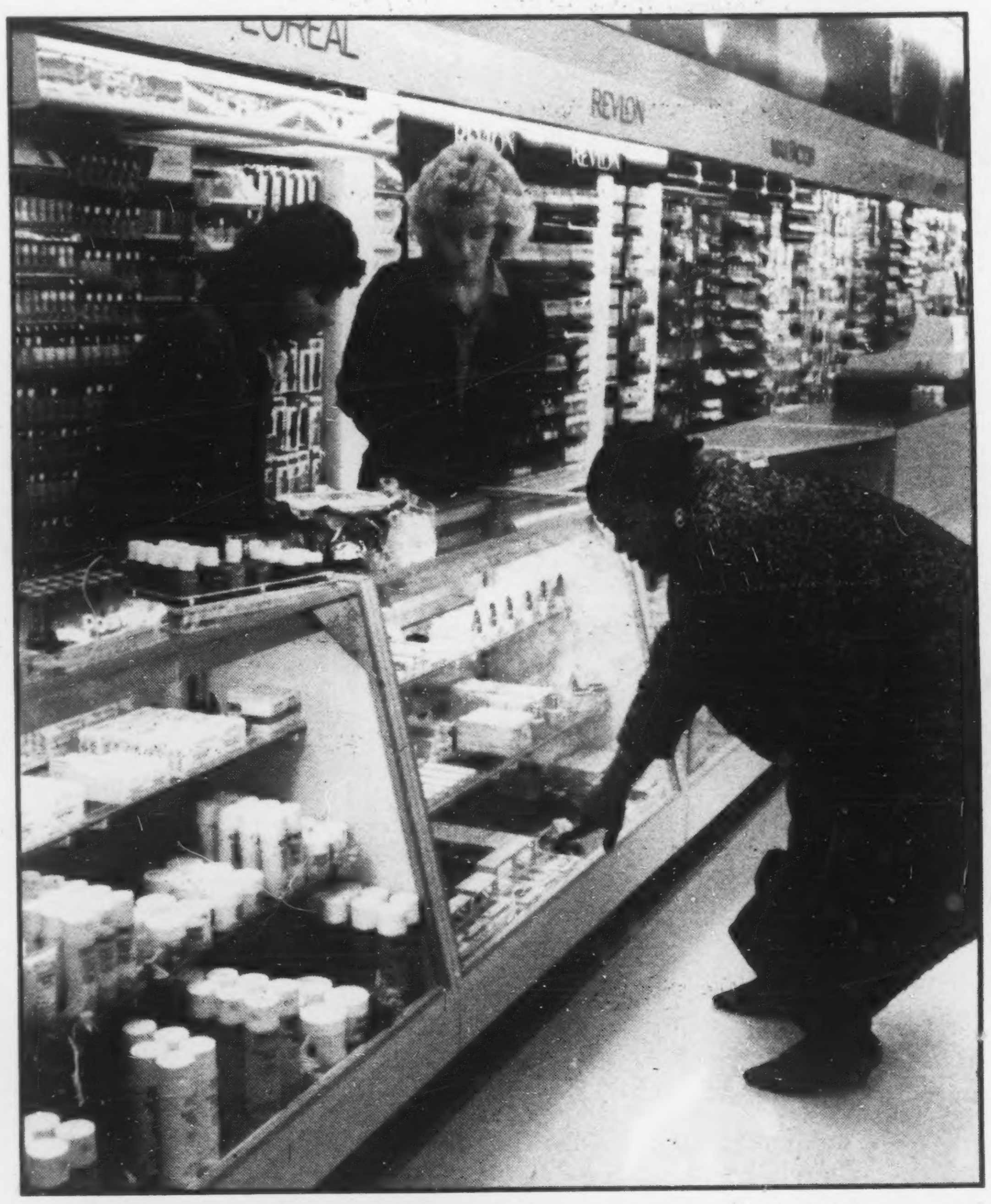
Charles Monk, ethnic hair care buyer for Harco Drug, describes the category as "very fashion-driven." Its maintenance and styling products are dependent on styling trends, and until some style, like the curl, emerges to dominate the fashion world, women and men tend to be eclectic in what they buy.

The only products that remain steady are those like moisturizers or hot oils, which people need to keep hair healthy and shiny.

Hair wrap

For the past few seasons, buyers have been waiting to see if the hair wrap style takes off nationwide. The jury is still out, they say, but more maintenance products are coming out for the wrap and seem to be moving well.

Revlon's Roux Wrap 'N Tap was the first one out, with good grades from buyers; J.M. Products has Isoplus Wrap Lotion, which some feel will "ride the coattails of the spritz and hot oil" and do well.



As middle-class ethnic consumers frequent drug chains, Perry and others offer a wide variety of department store and mass market lines.

Price/value

In ethnic, price/value is another key barometer of a successful launch, as demonstrated by the continued popularity of Optimum Care by Soft Sheen.

Until this launch, most ethnic shampoos were packaged in 8-ounce. containers, but priced as 16-ounce general market lines.

Soft Sheen, said buyers, was the first to launch a 16-ounce ethnic shampoo formula at a competitive price.

For some retailers interviewed, sales of that line doubled over the past six to nine months.

Family merchandising

Soft Sheen's latest introduction, Baby Love children's shampoo, is now being shipped. Buyers said they like the concept and packaging, but aren't sure how to present it in their stores.

The question: this family line cuts across categories and buyers don't know if it belongs in ethnic baby care, general market shampoo, or bath.

J.M. Products also offers a children's toiletries line, but it's still too early to gauge its performance.

Skin care is also showing some moderate growth, buyers say, led by Ambi and Dr. Palmer's skin lotions.

> Planogramming has become more precise, as chains are quicker to bring in new fashion goods.

Aggressive marketing plans drive ethnic sales

Manufacturers are also reviewing marketing programs in an attempt to stimulate growth. Soft Sheen and Carson, for instance, continue to advertise aggressively—both to consumers and co-op.

Smaller suppliers with tighter budgets are using bonus packs, combinations and free samples to generate trial and usage. J.M. Products, for example, introduced its new Isoplus Spritz by giving away an 8 oz. bottle on-packed to Isoplus Oil Sheen, a proven top-seller.

According to Gary Yowell, vp-purchasing for Jack's Service, the strategy was effective and the Isoplus Spritz, along with the New Era Spritz, are his two best sellers in that fast-growing segment.

Buyers aren't yet convinced that consumers will cast an environmental vote with their pocketbooks.

Drug store retailers are finding new growth in their stationery departments, while continuing to exploit home office potential. Pay Less store in Clackamas, Ore., carves a niche for children's arts and activities.

Color and consumer willingness to trade up are keystones of the stationery department's success.

Merchants eyeing more space for school, home office

In a survey *Drug Store News* conducted early this year, most drug store, combo and discount merchandisers who responded said they expected school/home office/stationery department sales to increase 5 to 10 percent during 1991. About one-third also said they planned to increase space for products in the category from 5 to 20 percent this year.

The survey also found that, after home office supplies, recycled and reduced-package products were seen as the fastest-growing part of the department.

Certainly, the Back-To-School Show in February bristled with products making environmental claims. But many buyers at the show sounded hesitant about investing much money or space in green products beyond token representation. They have yet to be convinced that consumers will actually cast an environmental vote with their pocketbooks.

But some drug chains—and many more supermarket companies—are getting serious about environmental issues, as shown in *Drug Store News*' last issue (April 1), which featured a special environmental report. If efforts at this point are mainly focused on companies' internal practices, such as in-office paper recycling, they're likely to spread to products, as consistent, nationwide standards are set and manufacturing processes responsive to environmental concerns are developed and brought up to speed.

The school/home office/stationery category should be one of the first departments in drug stores to be able to make a broad environmental presentation. Consider products already out: Stuart Hall's Green Leaf, Mead's Green Cycle, Carolina Pad & Paper's Cycle II and Union Camp's Vista lines. As recycling paper mills grow in capacity, availability of recycled paper is expected to improve, pushing down the costs of recycled paper to manufacturers and, in turn, consumers. (Some vendors say they're not passing the whole cost along to consumers now.)

Other new green products include Esselte Pendaflex's EarthWise office line; W.T. Rogers' Regeneration office products containing reprocessed plastic; some Eldon products made with 25 percent recycled plastics; Tape Inc.'s mailing products made of all post-consumer recycled fiber; even scissor handles and rulers made of discarded styrofoam cups and trays, in Acme United's Kleen Earth line; and much more, including many items with reduced packaging.

While many drug chains are just beginning to see the green light, most are charging ahead with merchandising and advertising programs to maximize school/home office/stationery sales and profits. *Drug Store News*' survey found that three-fourths of respondents advertise the category year round; that half of them planned to increase BTS advertising and one-third planned to lengthen that ad period; that several chains are lengthening their second-semester and tax-time ad periods; and that more than half the respondents had increased their promotional space or endcaps devoted to category items by at least 10 percent during the last year.

The survey also reflected what buyers have been telling us for some time: Color and consumer willingness to trade up are keystones of this department's success.

Manufacturers responded this year with new products for the coming BTS season that feature the latest colors and themes, such as strong purples, teals, reds and greens (and still some neon); foils and holographic effects; and tropical and marine themes.

1990 stationery department highlights in chain drug stores

Chain drug stationery sales	$2,222,536,000
1990 percentage increase	8.1%
Percentage of total chain drug sales	5.1%
Typical gross margins	40% - 45%
1990 industry profit yield from stationery	$889,200,000 - $1,000,400,000
Average annual department turns	4.7

Source: *Drug Store News* 1991 survey of drug chains

1990 stationery department productivity in chain drug stores

Category	1990 total sales (add 000)	1990 % increase	% of category sales
Cards	$ 771,298	6.4%	34.7%
School, home office	701,424	10.5	31.6
Books & magazines	319,893	5.4	14.4
Writing instruments	145,622	12.5	6.6
Gift wrap	119,518	5.4	5.4
Social stationery	82,669	7.3	3.7
Disposables/party supplies	64,343	7.5	2.9
Art supplies	17,770	25.1	0.8
Total	$2,222,536		100.0%

Source: *Drug Store News* 1991 survey of drug chains

Greeting card makers find write way to stimulate growth

Big Deals!
Big Savings on Big Sizes
No Clubs to Join
Everyone Saves
The Rx PLACE
Checkouts
4
50¢
You're Never Have To Pay Full Price Again

Greeting card valley in new Rx Place store features books down the center. Spinner of children's books and Kool-Aid display draw kids' attention while parent picks a book or giftwrap.

The high level of penetration of channels of distribution has spurred the major greeting card companies to cultivate other ways of stimulating growth. A main focus in recent years has been alternative cards, with Hallmark, Ambassador, American Greetings and Gibson generating a profusion of card lines to fit all non-occasions and a number of population niches.

The major vendors have also looked to merchandising and marketing innovations to increase product selection in the same space allotment, enhance product visibility, encourage impulse sales and improve productivity for retailers.

Consumers have never had more types of cards with which to communicate their feelings. From Ambassador in August came the 216-card "From Me. . .To You" line, one of the two largest card introductions in its history, featuring conversational messages and casual designs addressing love, friendship, family and support. Also in August, Ambassador introduced a line of 108 all-occasion cards for the Christian market, called "Sharing His Blessings."

Gibson produced "Because We're Family," covering a wide range of family situations and relationships. And American Greetings followed up the successful "Couples" line with its recently launched "American Greetings to the World" cards and "Pen Friend" program, as well as its environmental-statement line tied in with the National Wildlife Federation. AG also introduced "Kid Zone," riding the trend initiated by Hallmark with its earlier "To Kids With Love."

The dominant card companies have also stepped up their merchandising and marketing programs to enhance sales.

Ambassador's Season Plus in-store marketing program uses a unifying theme to highlight holiday seasons. This year's theme is Norman Rockwell artwork, in response to a perceived heightened interest in tradition, family and nostalgia. In its second year, Season Plus has expanded from six to nine holidays and has introduced a new print promotion in which customers can buy a Rockwell frameable print and matt for 99 cents with a three-card purchase.

Hallmark has mounted major marketing efforts, such as its coordinated media and in-store campaign last fall backing Shoebox Greetings. Gibson developed a modular merchandising system that can be adjusted based on a store's sales analysis of the department. American Greetings rolled out an "occasion merchandising" system, designed for larger card departments, that displays cards, wrap and other products together by occasion.

The major card companies are responding to environmental issues with plans to increase their use of recycled paper for cards. AG's "Greetings to the World" and Wildlife Federation lines are printed on recycled paper. Hallmark's Shoebox line and Ambassador's 450-card "My Thoughts Exactly" line are also being printed on recycled paper. Starting in May, these lines will be printed on recycled paper containing 10 percent post-consumer and 40 percent pre-consumer material and 50 percent "new" paper. Gibson is printing its spring promotional line on recycled paper. All these companies are changing over to water-based inks.

In gift wrap, the gift bag has emerged in the past two or three years as a growth area. While wrap sales grew roughly 5 percent last year, according to one estimate, gift bag growth was more like 20 to 25 percent. From a handful of designs and one or two sizes not long ago, gift bags now come in dozens of designs and at least 10 sizes.

It's not hard to see why bags have blossomed: They furnish a quick, easy way for today's busy woman—who buys most cards and wrap—to make a gift look attractive, and she's willing to pay a bit more for that convenience. Bags don't seem to be cannibalizing giftwrap sales, either, one giftwrap marketer said.

- **Almost 150 million cards are expected to be exchanged this Mother's Day, May 12.**
- **More than 100 million Father's Day cards will be exchanged this year for Father's Day, June 16.**
- **More than 80 million graduation cards are expected to be exchanged this year.**

Source: Ambassador

Greeting cards targeted to those in Persian Gulf

Some greeting card companies turned on a dime in reaction to events in the Middle East.

One vendor was even able to respond to the cessation of hostilities with a small selection of cards welcoming back the troops.

Ambassador's "Mail Call" started shipping April 4. The eight-card promotion, with special in-store signage, has messages to celebrate the homecoming. The company, which said the cards were developed because customers requested them, is donating 5 percent of retail of each card to the American Red Cross.

American Greetings launched a 24-card "America Misses You" line in February, with red, white and blue signage, plus a line for military personnel to send stateside, called "Greetings from the Gulf."

Hallmark in February whipped out four new cards in its "Just How I Feel" line in support of service men and women overseas. Now that they're returning, it hasn't added homecoming sentiments, because existing messages, such as "It'll be wonderful to see you again," are appropriate, a spokeswoman said.

Gibson introduced a 16-card line mid-March, called "Design U.S.O.," that includes messages about "missing you," "proud of you," and the like, although there's no specific "welcome home" message.

Super D
Celebrate the Season!

Non-occasion card lines offers consumers many ways to express their feelings, shown here at Gristede's Super D, N.Y.

1990 photo/video department productivity in chain drug stores

Category	1990 total sales (add 000)	1990 % increase	% of category sales
Film	$ 705,111	7.4%	37.7%
Still color	476,461	7.8	25.4
Instant	221,671	6.5	11.8
Still B&W	6,979	6.3	0.4
Processing	709,933	9.8	37.9
Accessories/flash	240,000	1.7	12.8
Blank video cassettes	159,872	6.6	8.5
Cameras	58,085	1.5	3.1
Total	$1,873,001		100.0%

1990 photo/video department highlights in chain drug stores

Chain drug photo/video sales	$1,873,001,000
1990 percentage increase	7.3%
Percentage of total chain drug sales	4.3%
Typical gross margins	20% - 25%
1990 industry profit yield from photo/video	$374,600,000 - $468,300,000
Average annual department turns	9.0

Source: *Drug Store News* 1991 survey of drug chains.

EXPRESS PHOTO
ONE HOUR PROCESSING
Nothing looks better
FILM DROP
FILM DROP
FILM DROP

Minilabs help spur sales at chain drug photo counters

Where was the action in photofinishing in 1990? In more and more drug stores, combo stores, superstores and discount houses, it was at the one-hour photofinishing counter.

The growth of on-site minilabs was much of the reason for the steady rise in market share which drug stores and supermarkets have been carving out of the photofinishing business. In 1989, the last year for which figures are available, drug stores processed 23.3 percent of the 750 million rolls of film turned in by the nation's shutterbugs, according to the Photo Marketing Association. That compares with 22.6 percent the previous year.

In so doing, the drug store channel racked up 22 percent of the $5.34 billion spent on film developing, compared with 21.5 percent the year before.

The percentage of that business which goes through in-store minilabs in drug outlets is still small, but it's growing rapidly. In 1988, the in-store labs accounted for 1.2 percent of the nation's processing business in rolls developed and 1.3 percent in dollars; by the next year, the numbers had shot up to 2.3 percent in units and 2.9 percent in dollars. Meanwhile, according to the PMA, the amount of processing business done by wholesale labs for drug chains continues to decline.

Clearly, the on-site processors can spark business. Revenues for photofinishing were up another 8 percent last year for all drug chains combined, to well over $700 million.

What's more, those figures are just beginning to reflect the recent installations of the latest generation of compact, easy-to-operate minilabs that many drug and food chains began installing in test stores over the past year and a half. Both Revco D.S. and Perry Drug Stores, for instance, have put the PhotoGo ultra-compact minilab system in some stores in recent months.

One store manager told *Drug Store News* the system drew a steady and growing business.

Advances in mini-lab technology have been dramatic in recent years. Whereas older systems required plumbing hookups, considerable floor space and a relatively well-trained crew to work them, newer minilabs available to drug stores and other non-photo retailers are self-contained, easy-to-operate and small enough to park almost anywhere in the store. Some are small enough to set on a countertop at the photo service area.

These breakthroughs in minilab technology have been enough to lure a number of major drug and combo chains back into the one-hour business. Although Eckerd Drug in the U.S. and London Drugs in Canada remain the undisputed leaders in chain drug one-hour processing, retailers like Walgreens, Perry and Longs are moving ahead with additional minilab installations. Combo store and discount chains, meanwhile, are taking advantage of their huge floor spaces to add one-hour photo labs in newer and remodeled locations. Along those lines, Randall's Food and Drug, Tom Thumb/Page, Wal-Mart, Smith's Food and Drug Centers, Fred Meyer and ShopKo are rolling them out—often within their own alcove at the front of the store.

> *Clearly, the on-site processors can spark business. Revenues for photofinishing were up another 8 percent last year for all drug chains combined, to well over $700 million.*

Chains fine-tune photo service, promos

Eager to wring more dollars and market share out of the profitable photofinishing and film business, drug chains have made the photo department a high priority in terms of service, promotion, space and positioning.

Seattle's Bartell Drug Co., for instance, has redesigned newer stores to position photo and video products within a high-impact "Sight and Sound" alcove at a front corner of the store. Service and innovative promotions have also been a big factor in Bartell's ability to wrest photofinishing and film market share away from competitors.

"Film sales have been rather flat, but we're getting our fair share of the business, and we're probably one of the stronger photofinishing sources in our market," noted Paul Lofgren, photo and sundries buyer for Bartell. "Nothing seems to (sell film and photoprocessing) better than seasonal and holiday specials, and the fact that we run full-service departments."

Pay Less Drug Stores and Perry Drug Stores have also made the photo counter a focal point in their new generation of store formats. Notes Perry in a recent report, "This traffic-building department had sales of almost $20 million representing the processing of about 2.5 million rolls of film, an 8 percent increase over fiscal 1989. This department, with only 60 square feet, generates a higher profit per square foot than many other departments."

Walgreens, meanwhile, has begun a long-overdue overhaul of the way it handles its photofinishing business at the point of sale. In March, the chain began installing a new, computerized scanning system at its photo counters to speed up drop-offs and returns. The system, built into the POS registers in the department, scans photo orders and prints labels and receipts automatically.

"It's to the photo clerk what Intercom is to the pharmacist," said Walgreen president Dan Jorndt. "It allows us to identify regular customers, and eliminates the need to ask the same questions of them over and over again."

Modest gains in fierce blank tape market

The market for blank videotape regained a bit of growth momentum in 1990 after a prior-year dropoff, thanks to a pickup in sales of VCRs and the growing popularity of lower-priced camcorders.

According to the Electronic Industries Association, sales of blank videocassettes approached 300 million units last year after dipping to 285.6 million the previous year. The competitive price-cutting also showed signs of abating last year as retailers and tape manufacturers tried to nudge consumers into higher-grade, higher-priced blank tapes.

Virtually all tape manufacturers have added premium-quality tapes to the upper end of their lines. In addition, 8mm tape sales are growing at a rapid clip.

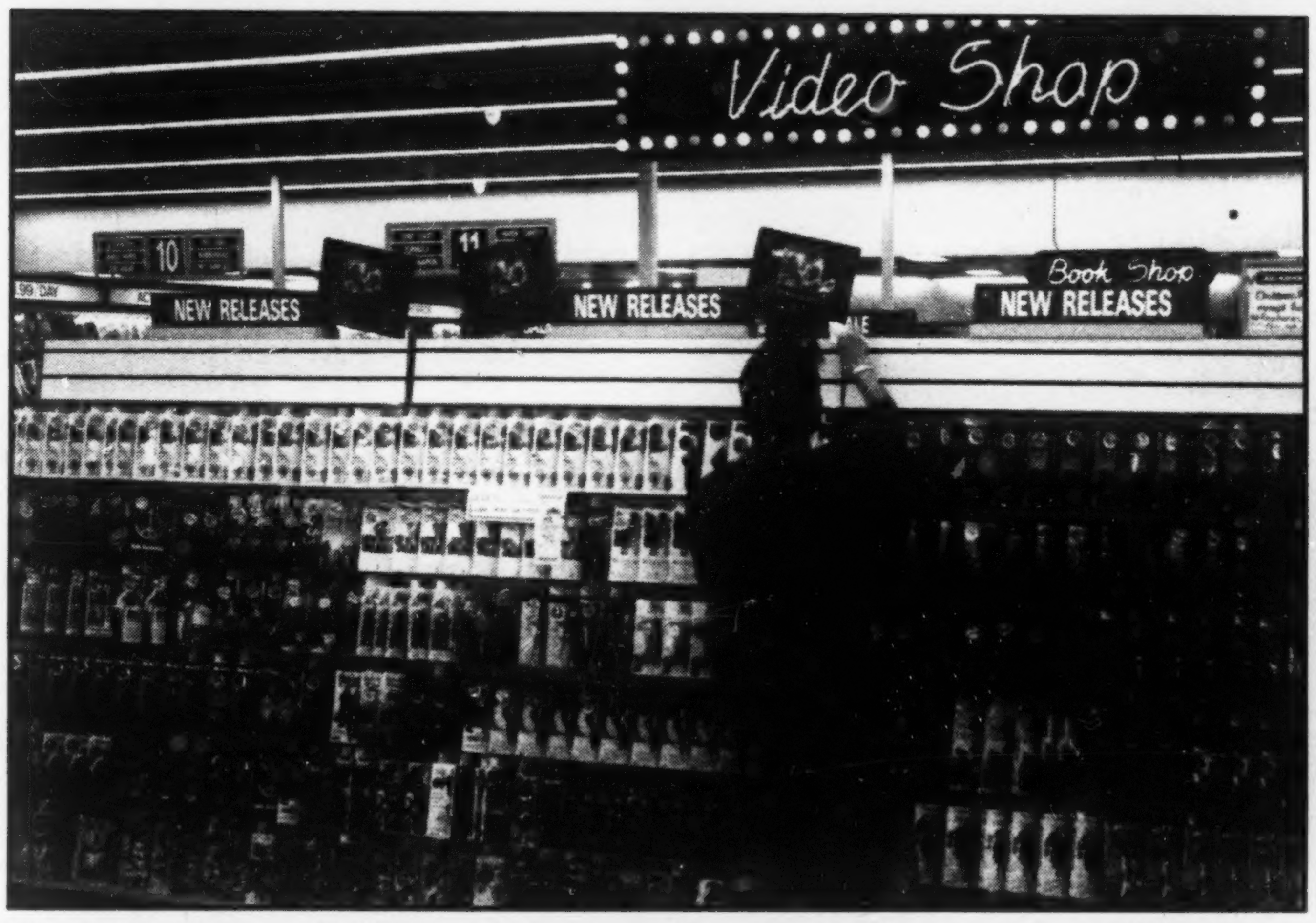
Roughly 20 percent of blank videocassette sales are now in high-grade or compact-size formats, according to 3M Corp. Drug chains are trying to niche those products as a way to offset the fierce competition in the tape category, which cut deeply into margins for the category since the mid-1980s.

To stabilize margins, many drug chains and other mass merchants are also treating blank videotapes more like an impulse item than they used to, with secondary locations and checkstand merchandising. Discounted multipacks continue to be a mainstay, however, and price sensitivity remains extremely high in many markets.

Competition also remains fierce in the video rental arena, with the shakeout of many mom-and-pop video outlets continuing. Nevertheless, some smaller and medium-sized drug chains and many food/drug combo operators remain stubbornly committed to the business. Indeed, many combo chains—including Randall's, Kroger, Tom Thumb/Page, Smith's Food and Drug and Hannaford/Wellby—have succeeded in making their well-stocked video rental departments a full-fledged, steady contributor to the bottom line. And off-price giant Phar-Mor continues to expand its video sections with a rock-bottom price strategy.

Blank audio cassettes, meanwhile, continue to enjoy modest but steady gains in unit sales and revenues. According to the EIA, factory sales of blank audiotapes rose a few percentage points to roughly 400 million units last year. Showing sharper unit and dollar gains are blank floppy diskettes, which have become a nearly $1 billion category in a few short years. An estimated 566 million floppies were shipped in 1990, the electronic industry group reported, compared with an estimated 493 million units the previous year.

Competition is fierce in video rentals, with the shakeout of many mom-and-pop video outlets.



Kroger Co. has unveiled full-scale in-store video shops in its newest generation of combos, complete with a mid-floor service island and a broad offering of new and older titles.

Video Tape Rentals
69¢
Video Tape Rentals
69¢
COMEDY

Phar-Mor has gotten serious about its video rental business, which still offers rentals at the rock-bottom price of 69 cents a night and $1.50 for three movies.

Film sales growth flatten but consumers willing to trade up

A recession and a mature market slowed the growth of the film industry in 1990, but consumers showed a tendency to trade up to faster, more expensive films as their sophistication in 35mm photography increased.

"There's a growing awareness of the need to match the right film speed to the correct setting, and consumers are becoming much more aware of the ISO setting," said Rod King, senior marketing manager of Fuji Photo Film U.S.A. "If retailers push 200- and 400-speed films, they're going to have happier consumers."

Meanwhile, 35mm continued to gain as the vastly preferred film format. More than eight of every 10 exposures is now 35mm, according to the Photo Marketing Association. Despite the shifts in usage patterns, however, the growth rate of film sales has slowed considerably since the heyday of the mid-to-late 1980s, when point-and-shoot 35mm camera sales and the economy itself were exploding.

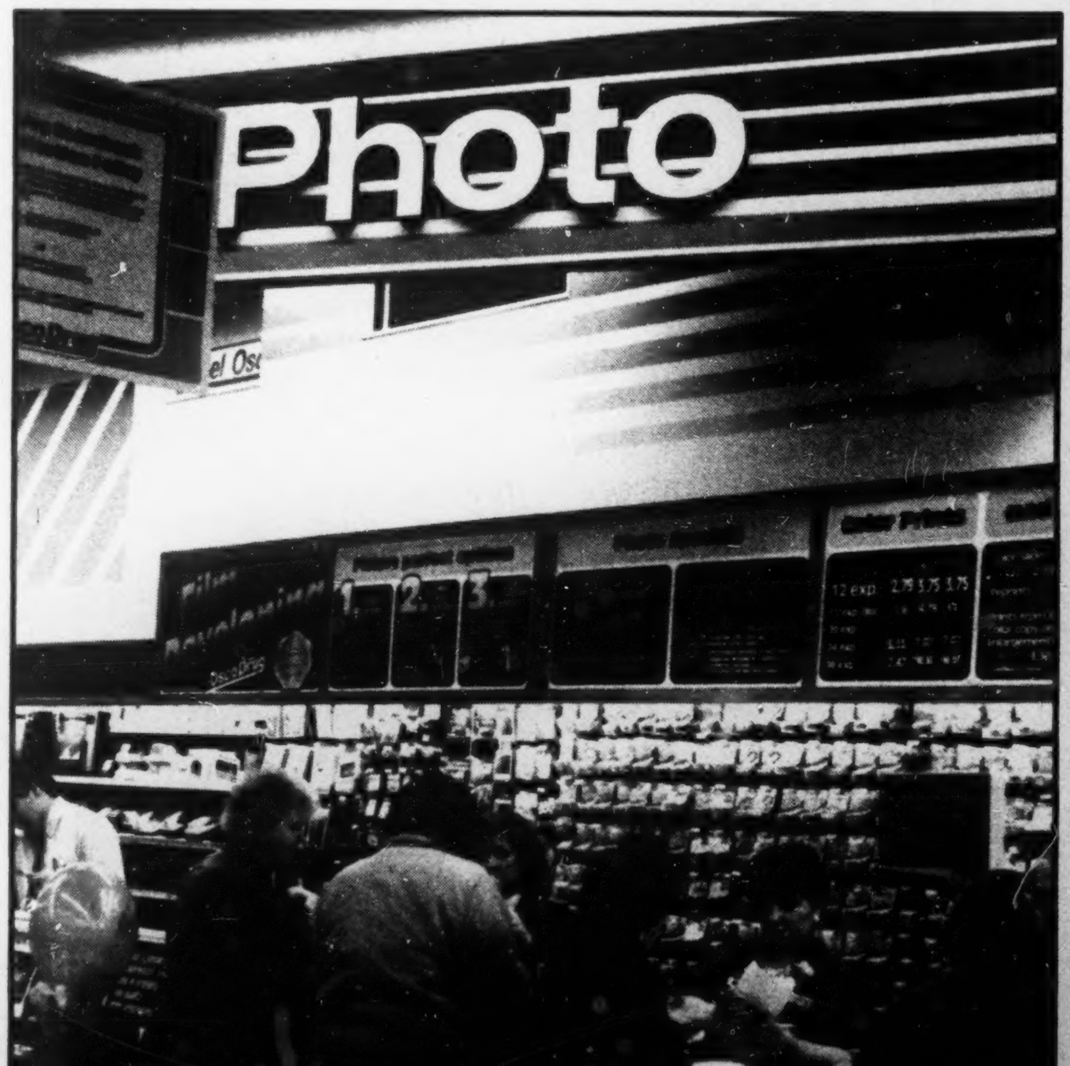
"Film sales seem to have grown only minimally this past year—about 2 or 3 percent," said Harold Martin, editor of the Wolfman Report, an industry bible. "The reason was partly the recession, but also because it's become a very, very large market. You're talking about roughly 17 billion exposures made, so every one percent is 170 million exposures."

Adds the PMA, "Expansion throughout the 1990s is expected to slow. This fact, however, obscures a fundamental reality. The base from which movement will occur is more than 60 percent higher today versus 1980."

Echoing the reality of a maturing, but important market is Polaroid Corp. president and ceo I. MacAllister Booth. "The deepening U.S. recession and economic uncertainty abroad present us with a difficult challenge in 1991," Booth said in February. "These economic obstacles. . .make our outlook very cautious for this year."

Eastman Kodak, Fuji and other manufacturers echo that caution. However, the major film makers are all keeping the heat on with new-product development.

Film makers are keeping the heat on with heavy promotional schedules.



American Stores has made the photo department a big drawing card in its newer Jewel/Osco combos, with many photofinishing options.

1990 candy department productivity in chain drug stores

Category	1990 total sales (add 000)	1990 % increase	% of category sales
Bagged	$632,954	5.9%	40.7%
Bars	459,102	6.5	29.5
Boxed	299,631	4.5	19.3
Chewing gum	141,241	7.4	9.1
Other	23,453	3.8	1.5
Total	$1,556,382		100.0%

Source: *Drug Store News* 1991 survey of drug chains

1990 candy department highlights in chain drug stores

Chain drug candy sales	$1,556,382,000
1990 percentage increase	5.9%
Percentage of total chain drug sales	3.6%
Typical gross margins	25% - 30%
1990 industry profit yield from candy	$389,000,000 - $346,800,000
Average annual department turns	7.5

Source: *Drug Store News* 1991 survey of drug chains

Consumer sweet tooth generates gain in candy sales

Candy sales maintained their momentum in chain drug stores last year, especially seasonal candies and bar candies.

Overall candy sales increased 6.1 percent to $1.6 billion, as chains continued to use promotion and high department visibility to capitalize on consumers' well-known sweet tooth.

Chocolate bars remained a department mainstay, but gum, bagged candies and boxed candies also did well, particularly leading brands like Wrigley, Topps , Amural, Russell Stover, Whitman's and Brachs.

However, because candy is a mature category, most drug chains expanded space only at Christmas, Valentine's Day, Easter and other key holidays.

At some chains, sales were even stronger than the overall average.

At Taylor Drug, Louisville, Ky., for example, candy buyer Cindy Mazza reported that her everyday candy sales were up almost 10 percent last year, but when seasonal candy sales were included, Taylor's category growth was close to 25 percent.

In previous years, the candy category has been helped by a surge of product introductions, but last year there were fewer launches.

M&M's new P.B. Max bars, the Worthers Butterscotch Mints from Stark Candy, Snicker's Peanut Butter bar and the newest flavors of M & M's candies have done very well, buyers said.

Reformulated line

Now that Hershey has reformulated the Peter Paul line, they have been doing much better in many stores.

M&M's new Peanut Butter flavored candies are doing fabulously. And so are Hershey's Almond Kisses and the Milky Way dark and milk chocolate bars.

Richmond, Va.-based Standard Drug likes to make a strong statement with candy.

They consider it one of their pivotal categories. Standard has the largest variety in its market and each fall, the chain kicks off seasonal sales with a month-long Chocolate Festival.

Buyer Ray Putze said Standard has been holding the festival for about a decade, and each year sales have climbed dramatically.

The chain launches the promotion with a weekly ad and then uses banners and headercards from the major vendors to merchandise promotion throughout October.

In the gum category, Wrigley's is Standard's best seller, but gums featuring sport cards also do well. Putze said adults buy the cards as much as children. New Kids on the Block and Bart Simpson cards have also done well.

Another booming category is dietetic candy, particularly the Sorbee line.

David Fuchs, who buys candy for K&B, said that while he had a slow third quarter with candy in his markets, his Halloween sales were terrific.

"Hitting the right price points is the key to sales in this category," he said. "Multiples in Dollar Day ads and bagged candies retailed at $1.99 always do well."

Fuchs also says fairly good sales of Cristal — American Chicle's new sugar-free gum that doesn't stick to dentures.

Rick Burns, who buys candy for Snyder Drug, said his candy sales have been very strong. Russell Stover was recently added to Snyder's candy planogram and it has been doing very well.

Candy and snacks play an important role in Snyder's stores. Burns said they are good, strong traffic-drawing categories as well as very profitable.

Phar-Mor and other deep discounters have such high traffic counts that they are potent merchants of bagged candies, bars and gift boxes.

Taylor's Cindy Mazza said candy sales growth was close to 25%.

Cracker Jack
PECAN LOG ROLL
Cracker Jack
99¢
Marlboro
Butterfinger

Selected candy promotions direct consumers into candy aisle; children's toys keep young ones coming back at Rite Aid, Harrisburg, Pa.

Mini food marts in drug chains see 6 percent overall increase

Convenience food sales maintained their upward growth curve in chain drug store last year with a 6 percent overall department increase.

The reason: more promotion of brand name packaged groceries and more emphasis on stocking an everyday assortment of high-demand products.

Today, several major drug chains have mini-combination food departments. Walgreens and Eckerd have been successful with this "store-within-a-store" concept, using high consumption groceries like milk, snacks, and canned and frozen entrees, to increase the frequency of shopper visits.

'Get your cold beverages'

Most drug chains also now have cold beverage sections in their stores where they stock juices, soft drinks and bottled water everyday.

Even bantam store operators like Rite Aid and Revco promote groceries often. They've started to learn they can go narrower but deeper on high consumption items that they can advertise at particularly low prices.

At Rite Aid, a spokesperson said grocery merchandising has worked well for the chain, successfully generating traffic and encouraging repeat visits.

Rite Aid uses groceries for in-and-out promotions, but concentrates on buying brand names in large quantities. "They give us the chance to offer our customers very good price values," said the spokesperson.

This past Labor Day, Rite Aid featured only about 10 grocery items for its big Labor Day ad special. The previous year, the chain featured almost twice that many items, but this past year the chain ordered many more cases per item per store. "We're being more selective," said one source, "but also more aggressive."

Another major drug chain, which used to use groceries primarily as in-and-out promotions, has now changed its "role," as the vp of merchandising put it.

Because groceries pull people into their stores to make fill-in purchases, this chain has created an everyday planogrammed grocery section in all of its 1,000-plus stores. The section gets 6 to 9 feet; the assortment consists of the fastest turning consumables like coffee, tuna, canned meats and lunch or dinner snacks.

"At the end of 1990, we were promoting the same number of grocery items, in fact even more than we did in 1989," the merchandising exec said, "but now we're promoting items that we carry 52 weeks out of the year."

Currently, he estimates there are at least 70 dry grocery items in this chain's everyday grocery planogram which is also part of its snack and beverage set.

In Minneapolis, Snyder Drug is also considering an everyday planogram for groceries and so is Harco Drug in Alabama.

Rick Burns, who buys groceries and snack foods for Snyder, says the chain has been promoting groceries on an in-and-out basis for years and now believes that it "makes sense to think of stocking them everyday."

"Space is a problem, but groceries turn a lot faster than most GM categories and they pull people into your store."

At Harco, buyer Andy Horn says management is considering an everyday planogram for groceries possibly for sometime this year. Harco has used groceries as in-and-out traffic builders for several years now, and Horn says they sell very well.

"When we do our new prototype we might do a grocery section, and get away from the slower turning categories like glasses and automotive.

At Snyder, Burns has learned that the best items to carry are those that are highly consumable and with a dominant share of sales, the number one and number two brands, he says.

Some strong brands

Some of the brands that have worked best in Snyder stores are Dole pineapple, Hunts' tomato sauces, Nabisco crackers, Nabisco Teddy Grahams, Kool-Aid, Rice-A-Roni, Ralston snacks and Campbell's Microwave soups.

At Harco, Horn says his best sellers have been all types of snacks, chocolates, all kinds of canned meals, canned pastas, soups, canned meats and fish. V-8 juices, Duncan Hines cake mixes and Stove Top stuffing have also done very well in Harco stores.

In Richmond, Va., the 60-unit Standard Drug chain is also getting ready to do a grocery planogram. Buyer Roy Putze says groceries is one of his fastest growing categories with sales up in excess of 20 percent this year.

All Standard stores carry between 300 to 400 candy and snack items plus about another 300 grocery items.

They all also have Visa coolers for Coke and Pepsi and Putze says they are a great drawing card for traffic be-

continued on next page

1990 consumables department productivity in chain drug stores

Category	1990 total sales (add 000)	1990 % increase	% of category sales
Liquor/wine/beer	$ 915,433	4.9%	51.9%
Soft drinks	261,080	9.7	14.8
Snacks/cookies/chips	153,322	12.4	8.7
Nuts	141,485	4.9	8.0
Canned goods/condiments	76,061	4.4	4.3
Dry packaged groceries	70,657	6.2	4.0
Other foods	144,3[illegible]4	3.4	8.2
Total	$1,762,372		100.0%

Source: *Drug Store News* 1991 survey of drug chains

Like many other drug chains, Pay Less, Clackamas, Ore., has a well-stocked soft drink section, including 12-packs and 2-liter bottles.

MEAT
MILK
JUICES
JUICES
BEVERAGES
BEVERAGES
GALLON MILK
GALLON MILK
LOW PRICE
DRINKS & JUICES
DRINKS & JUICES
SOFT DRINKS
SOFT DRINKS
SOFT DRINKS
199

Walgreens, which blazed the trail of mini-convenience food centers back in the '70s, now has coolers and everyday food assortments in nearly all stores.

Snacks' 12 percent increase help drug chains grow in mini-food mart sections

Continued from previous page

cause people appreciate the convenience of one-stop shopping.

Putze says groceries are a very important category for Standard. Unlike some traditional drug store categories like cough/cold medicines, groceries are a very profitable category.

"On some cough/cold items, we only make a nickel or a dime," he said, "but on groceries we can average twenty percent everyday. And it's also a very consumable category so it helps bring in people. You eat a bag of chips today and you're going to need another one tomorrow."

Snacks are one of the fastest growing of all grocery categories stocked by chain drug stores.

According to our annual chain drug survey, snack sales increased more than 12 percent in 1990. However, some chains reported increases as high as 30 percent on high consumption categories like potato chips, corn chips, and popcorn.

Shelf space growing

Many chains are continuing to give snacks more space, with space allocations increasing by an average of 10 percent in many chain drug stores.

This year, potato chips, corn chips and microwave popcorn stand out as the three fastest growing segments in snacks.

At Taylor Drug, Louisville, Ky., buyer Cindy Mazza reported that her snack sales were up over 30 percent versus a year ago.

Taylor has added Pepperidge Farm snacks to its planogram and Mazza said it was doing very well for them. Frito-Lay, Eagle and Nabisco are all showing above average growth, with Eagle snacks doing exceptionally well.

If the going's tough the tough eat canned meat

Roy Putze of Standard Drug says the chain has always done well with groceries, but he thinks it's possible the recession may be helping sales go up even more dramatically this year.

"When times get rough, people go back to eating canned meats like Hormel corned beef or Chef Boy-Ar-Dee pasta," he said.

"We take an item like Bumble Bee Salmon and price it between $1.99 and $2.39 and we sell it like crazy."

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Snacks and beverages make sweet sales for chains

Sales of microwave popcorn, as well as bagged popcorn, continue to explode. In some sections of the country, the light popcorns as well as the light corn and potato chips are growing faster than the overall salty snack category. Golden Valley's Act II microwave popcorn seems to have had an exceptionally good year.

"It's a very good value and consumers seem to love it,' said Standard's Roy Putze.

Standard advertises Act 11 every 45 days, says Putze, usually featuring the single packs at two for 89 cents or two for $1.

The vp of merchandising for a major Southern drug chain said that now that manufacturers can control the oil content in popcorn and other snacks, the category has been getting good press as healthier, which has helped sales.

He said the light formulas in microwave popcorn, potato and corn chips and cheese curls have all been selling well in his stores.

This chain too has expanded its snack food section by approximately three feet in the last year.

Frito-Lay products have done well in this chain, helped this source says by the emergence of a more "flexible program" that has benefited drug chains. Soft drinks have also done well here, both Coke and Pepsi, helped, in part he says, by the "excellent marketing of their manufacturers.

The nut category, however, has been one of the weaker segments of snacks, vulnerable as it is to crop shortages and abrupt price changes.

Last year the category was flat or down for most chains, and this year could be slow too since there has been another poor crop season.

Chips, which one buyer described as a price-driven category, Eagle was singled out for having one of the best "promotional programs" in the industry. One source said they had the best promotions with Eagle this year and it was partly because they did so many buy-one-get-one-free promotions.

"We didn't have to discount at all," said this source. "We sold one bay at the regular price, and the consumer got the other for free. It was good for us and it was also a great consumer value."

Roy Putze at Standard Drug says that Sunshine's little peanut butter crackers and the Nabisco crackers are selling extremely well and VeryFine juices have been "excellent."

Putze says the 60-store chain easily turns a truck-load a week, with most of the sales coming from cold juices.

The food chains in Standard's markets all have their own house brands of soda as a price value alternative to Coke and Pepsi. Putze, however, uses Shasta beverages, which he warehouses, to compete in that niche and he says that at 99 cents a six pack, he sells tons.

Bottled waters are also doing well in Standard stores, North Country in particular.

Putze says his snack sales are up at least 30 percent this year, with the growth coming from microwave popcorn, potato and corn chips, juices as well as from canned meat snacks from companies like Chef Boy-Ar-Dee and Hormel.

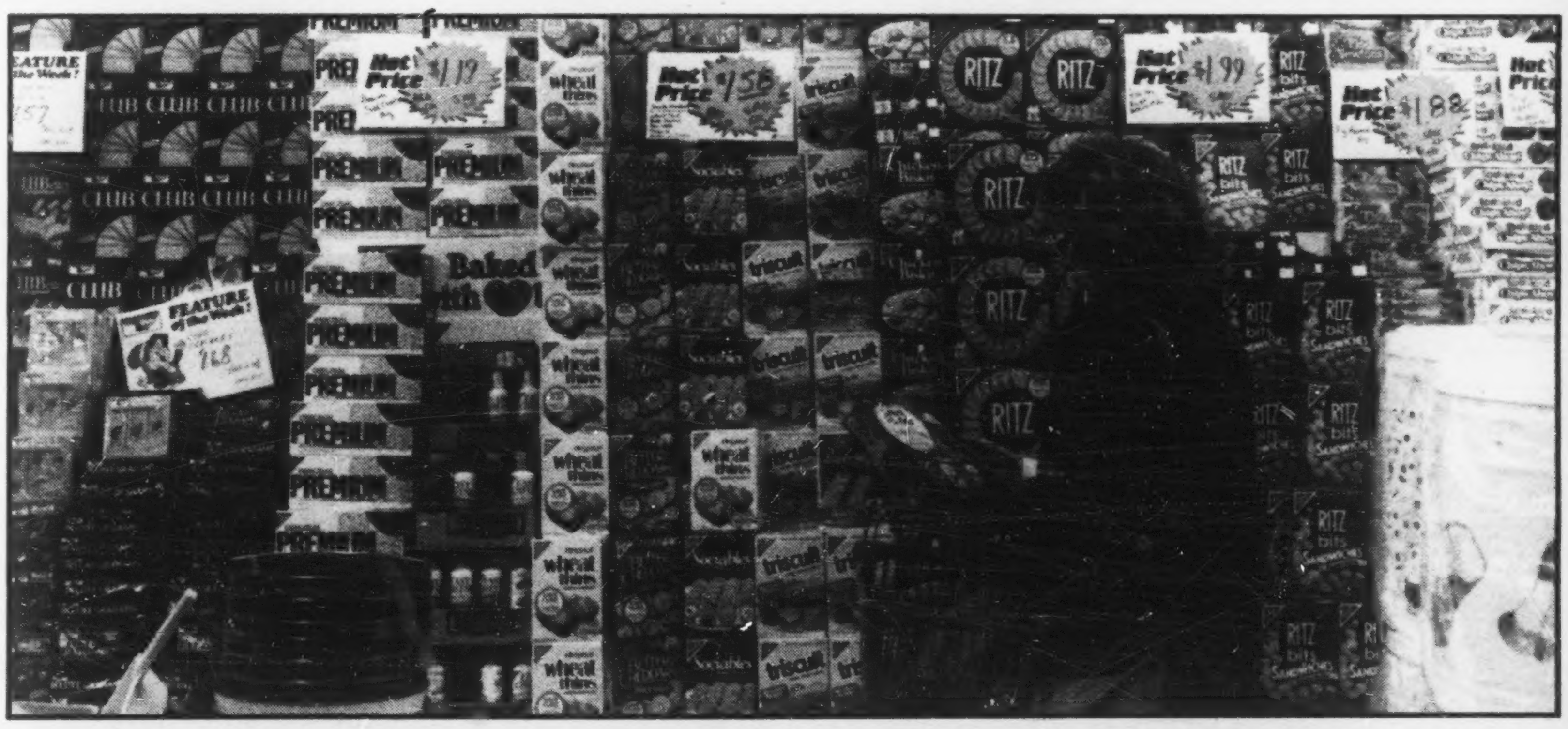
Rick Burns at Snyder Drug says his snack sales are also up about 20 percent. Snyder is in the process of expanding its snack department and Burns is considering taking the popcorn and nut section out of the candy department and putting it in with chips. He'd also like to add crackers to his everyday planogram.

Crackers right now are just in and out promotions at Snyders, but Burns says they sell well enough to justify permanent placement.

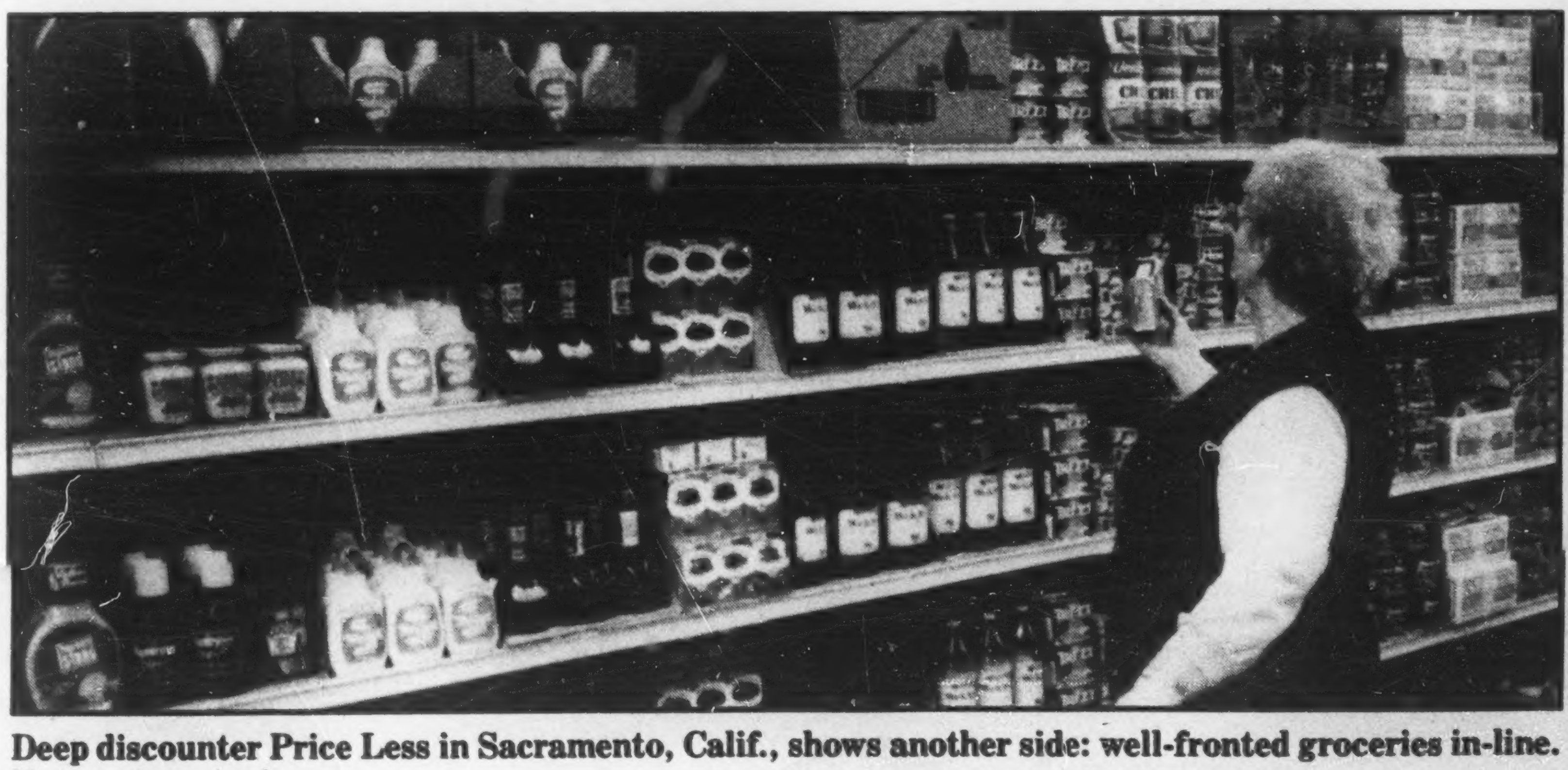
1990 consumables department highlights in chain drug stores

Chain drug consumables sales	$1,762,372,000
1990 percentage increase	6.1%
Percentage of chain drug sales	4.1%
Typical gross margins	15% - 20%
1990 industry yield from consumables	$264,300,000 - $352,400,000
Average annual department turns	5.2

Source: *Drug Store News* 1991 survey of drug chains



Mass displays of national brands at hot prices characterize the deep discount approach, as at A.L. Price in Detroit.



Deep discounter Price Less in Sacramento, Calif., shows another side: well-fronted groceries in-line. Note cut cases above.

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1990 tobacco department highlights in chain drug stores

Chain drug tobacco sales	$2,563,502,000
1990 percentage increase	3.5%
Percentage of total chain drug sales	5.9%
Typical gross margins	15% - 20%
1990 industry profit yield from tobacco	$384,600,000 - $512,800,000
Average annual department turns	15.3

Source: *Drug Store News* 1991 survey of drug chains

1990 tobacco department productivity in chain drug stores

Category	1990 total sales (add 000)	1990 % increase	% of category sales
Cigarettes	$1,756,017	4.2%	68.5%
Cigars	368,269	1.8	14.4
Lighters/smoking accessories	238,805	2.3	9.3
Tobacco/tobacco products	173,312	2.4	6.8
Pipes	27,099	3.2	1.1
Total	$2,563,502		100.0%

Source: *Drug Store News* 1991 survey of drug chains

Cigarette sales grow in an increasingly complex market

Retail sales of cigarettes grew five percent over the past year despite the continued two percent downturn in unit consumption. Drug chain performance paralleled this trend, industry sources told *Drug Store News*.

Careful attention to assortments and convenient displays lifted cigarette sales, as did pass-alongs of manufacturer price increases and taxes. Vendor price hikes on full-priced brands totaled $5 per 1,000 cigarettes in 1990, and varied within the price-value segment, said John Maxwell, analyst at Wheat First Securities.

In 1991's first quarter, a hike of five cents on the federal excise tax kicked in, and a new hike on price-value smokes was seen. Two more price increases will come in 1991 as the vendors continue to cover their costs of business, said Maxwell.

The average national price for a pack of cigarettes by year-end 1990 was $1.60, including 71 cents of taxes.

Retailers had to pass the taxes and price hikes through to maintain decent margins, and in many cases conform to state minimum gross margin laws.

With carton margins of 10 percent, single packs' 20 percent-plus, fast-turning tobacco is a high-profit category. At 15 annual turns, tobacco ranks as one of the fastest movers at drug chains.

The continued growth of higher-margin price-value styles added to retailer profits. Price-value, including generics and "black and whites," now capture close to 20 percent of the market. Doral, R.J. Reynold's branded generic, climbed two notches within the top ten rankings, to claim seventh place with a 4.3 percent share.

The industry expects price-value styles to expand as price hikes and taxes drive full-price brands beyond more consumers' wallets. Single-pack sales are also growing, as carton prices reach higher into the double-digits. And two-for-one promotions are increasingly popular.

Fixtures with electronic security systems have helped convince drug chains to use self-service displays—but many store operators still prefer behind-the-counter presentations, which poses space concerns.

"We have to be selective because our counter space is limited," said Ken Fossaceca, merchandiser, Medic Discount Drug in Cleveland. Unless a vendor offers an "extremely good" display promotion, cigarettes remain in a clerk-serviced area at the 23-store chain.

"Sales were decent in 1990. We saw an influx of generics and sub-generics," Fossaceca said.

At Begley/Health Mart, generics have grown five percent since being introduced to the former Eckerd stores earlier this year, said Jim Hobbs, senior merchandise manager.

Most of the Begley stores openly merchandise cigarettes at the checkout and on a three-foot endcap. "We haven't had excessive problems with shrink," says Hobbs.

Chains prefer to keep a low profile on tobacco, as states, communities and the federal government focus increasingly on tobacco as a health hazard. This can have a direct impact on the retailer, as when a Boston convenience store was sued for selling cigarettes to minors. Nearby Newton, Mass. proposed a law banning cigarette sales in drug stores.

California, meanwhile, claims that a new program which taxes cigarettes to pay for health education and anti-smoking advertising is directly responsible for a significant decline in the number of state adult smokers.

Cigarette lighter sales picked up in 1991's first quarter due to the end of the Persian Gulf war. The war and the recession had dampened sales, as buyers would forgo purchasing lighter promotions, said Pete Delin, vp gm, Cricket.

TOBACCO
CHECK-OUTS

Drug chains emphasize single-pack sales for margins and prefer behind-the-counter service, as at Genovese, Bay Shore, N.Y.

The Top 10 Brands of Tobacco

(Estimated full-year comparisons*)

Brand	1989 Units	1989 Share	1990 Units	1990 Share	% Change
Marlboro (PM)	138.02	26.3%	137.84	26.1%	(0.1)
Winston (RJR)	47.40	9.1	46.66	8.8	(1.6)
Salem (RJR)	32.34	6.2	32.67	6.2	1.0
Kool (B&W)	31.18	5.9	26.00	4.9	(16.6)
Newport (Lorillard)	24.66	4.7	24.88	4.7	0.9
Camel (RJR)	20.37	3.9	23.22	4.4	14.0
Benson & Hedges (PM)	20.33	3.9	18.50	3.5	(9.0)
Merit (PM)	20.12	3.8	18.40	3.5	(8.5)
Doral (RJR)	19.03	3.6	22.89	4.3	20.3
Virginia Slims (PM)	16.54	3.2	16.10	3.0	(2.7)
Total top 10	369.99	70.6%	367.16	69.6%	(0.8)

** Units in billions. Includes filter and non-filter.*
Source: John C. Maxwell Jr.

Tobacco Company Sales and Market Share

(Estimated full-year comparisons)

Company	Units* 1989	Units* 1990	Units* % change	Market share 1989	Market share 1990	Market share Chg
Philip Morris	219.54	221.00	0.7	41.9	41.9	0.0
R.J. Reynolds Tobacco	149.43	156.99	5.1	28.5	29.7	1.2
Brown & Williamson	59.46	55.70	(6.3)	11.4	10.6	(0.8)
Lorillard	41.80	40.54	(3.0)	8.0	7.7	(0.3)
American Brands	36.61	35.85	(2.1)	7.0	6.8	(0.2)
Liggett	17.04	17.67	3.7	3.2	3.3	0.1
Total	523.88	527.75	0.7	100.0	100.0	—

**—Units in billions.*
Source: John C. Maxwell Jr.

The sun rises on chains' houseware market as cookware, bakeware, personal care standout

1990 housewares department highlights in chain drug stores	
Chain drug housewares sales	$2,457,899,000
1990 percentage increase	1.3%
Percentage of total chain drug sales	5.7%
Typical gross margins	35% - 45%
1990 industry profit yield from housewares	$860,300,000 - $1,106,100,000
Average annual department turns	3.0

Source: *Drug Store News* 1991 survey of drug chains

In housewares departments such as in this A.L. Price store in Detroit, sturdy plastic and rubber dishpans, laundry baskets and the like provide bread-and-butter business.

The Housewares Show in Chicago this January offered a noteworthy array of products targeted to drug stores, and drug chain buyers showed a keen interest in the merchandise.

"Drug stores are growing as a viable channel for the housewares business," said Kimberly Rawn, a National Housewares Manufacturers Association spokesman.

Rawn said growth in the housewares department is fairly steady, with a few standout categories. Those include storage containers, cookware and bakeware, some personal care items and some electric appliances.

Drug chain buyers zeroed in on those categories and others at the show, paying particular attention to personal care products with mandated electric safety features, as well as new dental care devices and facial massage products.

They also sought out new storage items, which many chains are finding to be fertile ground to cultivate.

Chains are finding that storage containers are fertile ground to cultivate.

In addition to organizers for closet, kitchen and bath, there is an increased selection of storage bins and holders for household recycling collection this year, as more communities, counties and states gear up to mandate recycling.

Drug chains generally see housewares as a steady, basic business, with serviceable, durable plastic and rubber items such as dishpans and refrigerator containers among department mainstays.

Buyers look for new housewares products to add excitement to their basic business, and they had plenty to choose from this year, as the show amply demonstrated. Among items that drew particular interest: water filtration systems, which more drug chains are bringing in; a hand-held blender; shower massage devices; plaque removers; iced tea makers; and diffuser hair dryers.

In the light bulb segment of housewares, the standard incandescent A-line, the bread and butter of chains' light bulb business, is being challenged. Vendors have launched low-wattage halogen and fluorescent bulbs with the dual claims of using energy more efficiently and saving customers money on light bills. General Electric's Energy Choice and GTE-Sylvania's Energy Saver lines even come in green packaging to underline their earth-friendly claims. Philips expects strong results from its fluorescent Earth Light and the HalogenA.

The fluorescent screw-in lamp is especially efficient: the 27-watt Circlite fluorescent, for example, lasts 10 times longer than the 75-watt soft white, for a $38 saving in energy costs over its life.

Low-wattage bulbs, which provide about as much light as incandescents, save electricity. A large percentage of electricity is produced through the burning of fossil fuels, and in burning, fossil fuels emit noxious gases that contribute to smog, acid rain, ozone depletion and other effects that harm the environment.

Drug chain buyers differ on the potential for A-line halogen bulbs in drug stores. Some feel the price points of these lights—more than four times the price of standard incandescents—aren't compatible with a discount image. Others argue that consumers familiar with halogen through automobile lights will respond to its claim of longer life.

Picture frames

The emphasis on home decor and creating a comfortable environment bodes well for picture frame sales.

Intercraft and American Greeting's Acme division, both prominent frame suppliers, were joined last year by Holson, the photo album maker. Many retailers, including Walgreens, find frames warrant everyday space and are effective in promotions related to photofinishing.

Holson's line is positioned as an "upscale alternative for mass merchants," with price points typically $10-$20.

The incandescent A-line light bulb, drug chains' bread and butter in this section, is being challenged.

1990 housewares department productivity in chain drug stores

Category	1990 total sales (add 000)	1990 % increase	% of category sales
Plastic and rubber housewares	$ 539,042	1.6%	21.9%
Household supplies	292,995	1.3	11.9
Personal care	278,320	1.3	11.3
Small electrics	222,314	1.7	9.0
Glass/dishware/cookware	198,426	0.3	8.1
Paper products	197,351	5.2	8.0
House & kitchen gadgets	137,941	1.4	5.6
Lighting products	125,666	7.3	5.1
Picture frames/mirrors	86,374	8.1	3.5
Insecticides	69,290	−3.8	2.8
Plants/plant care	57,071	4.1	2.3
Furniture/outdoor furniture	56,950	−2.7	2.3
Bath/closet	44,753	3.2	1.8
Giftware	29,444	3.4	1.2
Vaporizers/humidifiers	26,520	4.5	1.1
Miscellaneous	95,442	−1.6	3.9
Total	$2,457,899		100.0%

Source: *Drug Store News* 1991 survey of drug chains

General merchandise sales have big impact

General merchandise lit up drug stores with some of the most dynamic products in 1990. Batteries and toys are crucial profit centers; pantyhose, sunglasses, watches and jewelry underscore the fashion image operators seek; automotive chemicals are effective traffic draws.

And home lighting products, which are covered in this issue's housewares section, offer some of the most exciting product innovations. Their economics and energy savings make sense for consumers and retailers, who benefit from the trade-ups and love the traffic draw of bulbs.

Clearly, reports of the demise of general merchandise in drug stores have been exaggerated.

Batteries

Drug stores are in a heated battle with food and discount stores for battery market share. The category is critical to this trade class, since people replenish frequently, buy them in many areas of the store (in home displays, at checkstands and near displays of devices they drive), and have accepted high-ticket multipacks as convenient ways to stock up.

Overall, battery dollar sales grew 7 percent in 1990, and drug chain performance parallelled that.

Batteries are the most profitable item at the checkout, the *Drug Store News* Checkstand Merchandising Survey found. Chains emphasized promoting multipacks which appeal to the heavy users who account for 70 percent of all household battery volume.

Batteries gain wide distribution

(1990 share by trade class)

Store type	Percentage of sales
Mass merchant	21
Food	21
Drug	20
Hardware	8
Wholesale clubs	5
Convenience	4
Other	21

Source: Eveready

Last year, chains emphasized promoting battery multi-packs, which helped lead to their overall 7 percent dollar sales increase.

Meanwhile, rechargeable batteries continue to wait for their day in the sun. Chain buyers are concerned about the high price points of recharging systems and feel consumers need to be educated about the advantages and uses of rechargeables.

Drug chains are aggressive sellers of flashlights, both at the low- and high-ends of the market. Premium lights with new features, styling and colors at under $15 are a growth segment, as are economy models, personal, and squeeze lights at under $2.

The major battery vendors have valiantly addressed earth-friendly issues, while at the same time insisting that batteries aren't hazardous. Batteries, in any case, continue to be a target for environmental groups.

Eveready, Duracell, Rayovac and Panasonic have each reduced the mercury content of alkalines to 0.25 of one percent. Several states are now proposing laws that require zero mercury levels, and new non-mercury claims will most likely begin to appear on packaging. Vendors led by Eveready have also introduced shrink-wrap packaging that cuts back 70 percent of waste and uses recyclable materials. The packages are also far more space-efficient for denser packing on displays.

Chemicals inside alkaline batteries can't yet be recovered economically. But vendors contend the contents of the cells—except for the mercury—are benign, and studies have repeatedly shown that no metals leak from battery-containing landfills.

Hair accessories

Increased emphasis on grooming and health are propelling sales of hair accessories, including combs, brushes, hair and head ornaments.

While items under $2 capture many impulse sales, today's customer also seeks value in items such as barrettes and—strong performers in 1990—head bands and hair wraps. Head bands are perennially strong performers, and hair wraps should stay strong into 1992, industry sources feel. They've "become a basic part of dressing for most women today," one source observed.

Also strong in 1990: the pony-tail look.

Naturally, fashion is key to this high-margin segment. For 1991, Goody is betting on its Sport line of hair accessories in bright colors and black. Other suppliers, such as Sekine, Conair and Wilhold build followings with their own distinctive looks.

1990 general merchandise* highlights in chain drug stores

Chain drug general merchandise sales	$2,895,191,000
1990 percentage increase	3.3%
Percentage of total chain drug sales	6.7%
Typical gross margins	35% - 45%
1990 industry profit yield from GM	$1,013,000,000-$1,303,000,000
Annual average department turns	4.9

* 1990 figures include toys

Source: *Drug Store News* 1991 survey of drug chains

Sunglasses

Sunglasses are becoming more of a niche business: different styles for different customer segments. Merchandising by lifestyle such as sports, fashion, or classic styles can make the category in the store more appealing and easier to shop.

The success of neon styles in 1990 underscored the importance of the youth market in driving sales. Vendors are making higher-quality product for this group.

Sunglass sales in 1990—for the seventh consecutive year—were over $1 billion. For the first time in 10 years, however, sales fell a bit from the all-time high in 1989 of $1.7 billion, to $1.665 billon, reported the Sunglass Association of America. Pairs sold in drug stores dropped from 18 million to 17 million.

1990 general merchandise dept. productivity

Category	1990 total sales (add 000)	1990 % increase	% of category sales
Toys	$ 848,147	1.4%	29.3%
Pantyhose/soft goods	293,736	3.2	10.1
Sunglasses	263,166	0.1	9.1
Batteries	245,361	6.4	8.5
Pet needs	208,135	7.1	7.2
Hardware	206,485	5.8	7.1
Automotive	198,315	4.9	6.8
Sporting goods	164,629	5.1	5.7
Watches/bands	139,824	8.9	4.8
Home electronics	130,132	4.8	4.5
Yarn/sewing notions	83,186	2.7	2.9
All others	114,072	4.8	3.9
Total	$2,895,191		100.0%

Source: *Drug Store News* 1991 survey of drug chains

Hosiery reaps the high ground; toys, jewelry see gains in key areas

While the toy industry experienced a flat year in 1990, drug chains with well-assorted toy departments found ample opportunity for high-margin sales.

Drug stores' success with toys depends largely on geography; a drug store can be a convenient outlet for toys—if they have the good fortune of not being too close to a Toys "R" Us or similar discounter.

Basics held the high ground again in 1990, enabling mass merchants to avoid risky investment in fads. Drug stores have traditionally done the best with lower-price-point board games, pegged items, pre-school, and action figures, which consumers expect to find in drug stores.

Trading cards keep building

And trading cards continue to sell well, driven by manufacturer quality that builds appeal, a low ticket and high-impulse checkstand displays. The introduction of lines for basketball, hockey and other sports broaden the consumer base of card buyers and build the market overall.

GI Joe, Batman and Teenage Mutant Ninja Turtles action figures and related merchandise under $5.99 were leading sellers at the New England retail accounts of Sanco Toy, a Foxboro, Mass. distributor, said Sanco co-owner Steve Sandberg.

Low-end Barbie dolls for under $12 such as Hawaiian Barbie and Fashion Play Barbie also sold well.

In board games, Milton-Bradley's "Scattergories" was strong. The Simpson's license is hot. Sanco accounts, which include Wellby Drug, Hannaford Brothers supermarkets and Thayer Drug in Connecticut scored high-velocity, high-margin sales with endcaps of Donatello, Raphael, Michaelangelo and Leonardo and friends.

Sandberg finds that drug stores are rediscovering toys—in part for their margins of 38 to 42 percent, and for the way they add to the stores' appeal to shopping families. One example: Hartford, Conn.-based Arthur Drugs put in a 68-foot Sanco program in its seven stores five years ago, vp Jay Mastriani told *Drug Store News*.

The result: profit gains from toys have helped make up for squeezed margins in the pharmacy from third party business.

"My toy business has increased, and it is increasing even more. Why, I really don't know," said Mastriani. One reason: the controlled, well-assorted inventory Arthur stores have by using a Sanco, which housekeeps and writes orders on a weekly or every-other-week basis. Also, Mastriani will "take advantage of a few extra points I make buying direct," as with a recent purchase of Playskool items in which Arthur benefitted from dated and "measured" product shipments.

Jewelry gains strength

The key to jewelry retailing: close contacts with suppliers for constant updating, maintenance and inventory control of sections.

Costume jewelry is gaining adherents—thanks in part to Barbara Bush's penchants for wearing fake pearls. Drug chains, indeed, see room to upgrade their "faux" jewelry selections—a strong part of their overall fashion statement—along with cosmetics and hair accessories. Price points are bound to stay under $20, buyers said.

Drug stores claim 8 percent of the watch market.

New fashion items are winding up consumer interest, and drug stores are becoming more aggressive and fashion conscious. The result: they can offer interesting new styles at price points of under $50, and they're often deeply discounted.

A recent hit: Timex's Ironman Triathlon. The Teenage Mutant Ninja Turtles licensed watch won favor, and some chains scored with the much-publicized Russian watch. Retailers are watching Southwestern themes, neon and sports celebrity-endorsed watches.

If the '90s will be a time of inconspicuous consumption, as some believe, few will want to flash expensive watches. "Anti-fashion will be the hip fashion," as one industry observer said. And people will want to buy several basic watches, a trend that would bode well for drug stores.

Action figures and dolls bring smiles

*(Vendor shipments, sales in millions of dollars)**

Category	1990	1989	Percentage change
Dolls	1,284	1,071	19.9
Vehicles (powered and non-powered)	1,252	1,439	(13.0)
Infant/preschool	1,070	1,089	(1.7
Activity toys (building sets, art supplies, etc.)	1,052	1,149	(8.4
Games/puzzles	968	984	(1.6
Action figures	685	553	23.9
Ride-ons (excluding bicyles)	641	635	0.9
Plush	495	498	(6.0
All other toys	1,355	1,362	(0.5
Total (excluding TV video games)	8,802	8,70	0.3
Total (with video games)	11,866	11,314	4.9

**Survey of 73 companies that accounted for 55 percent of industry shipments in 1990 and 54 percent in 1989.*

Source: Toy Manufacturers Association of America, The NPD Group, Inc.

Upgrading hosiery sections

With shopping convenience and fashion as key sales attractions, it is little wonder that pantyhose displays are often used as high-profile displays. Pantyhose are part of working women's uniforms—and women, it seems, can always use a back-up pair.

Not surprisingly, drug chains are beginning to stock more expensive hosiery to encourage consumers to trade up, and women are responding.

In colors, a shift toward "non-brown" tones has occurred in the past two years, with pinks and violets strong in the summer months. Black and off-black shades have eclipsed the "browns" as a basic item, outselling "browns" 6-to-1, according to one vendor.

Drug chains are also upgrading displays. Volt, for instance, has had success bringing a department store approach to merchandising: fabric swatches on packages allow shoppers to feel and see the items up close. The L'eggs Pantyhose Advisor gives computerized assistance for selecting the correct size and style.

Easy-to-shop merchandising systems, as in Genovese's Bronx, N.Y. store, are a big plus in organizing and selling hosiery category.

Standard Drug, Richmond, Va., makes a do-it-yourself statement with everyday stocking of automotive engine chemicals.

Oil/antifreeze sales off to smooth start; chains see more sales for reading glasses

Inroads made by quick lube outlets haven't hurt drug chains, which capitalize on the DIY market through sales of oil and antifreeze. The quick lube facilities held a 34 percent share of the motor oil aftermarket in 1990, and gain about 1 percent a year. The rest of the market—people with an urge to get their fingers dirty—buy their oil from retailers.

Drug stores often promote branded motor oil heavily as an effective traffic builder and a way to develop price image. Operators such as Rite Aid build margins with a solid private label program.

Drug retailers have largely conceded the auto accessories and parts businesses to other trade classes, but have developed a strong niche in chemicals that people replenish regularly and are willing to buy in such outlets of convenience.

Environmental activity recently surfaced in automotive in Massachusetts, which began enforcing a 1974 law that said retailers must be ready to accept used oil. While a state official had said large motor oil retailers would bear the brunt of enforcement, the drive caused such drug chains as CVS and Rix Dunnington to steer away from the business.

Overall, the DIY market continued to grow, despite a "dramatic slowdown" in the Northeast and West, reported the Home Improvement Research Institute. Home improvement sales, including consumer and contractor work, were $104.4 billion—up 3.6 percent from 1988, the trade group said.

Reading glasses

Product upgrades and new display systems have been the story in reading glasses this past year. More chains are jumping on this bandwagon, realizing that once consumers sense their value, sales will grow—especially with the aging population.

Pennsylvania Optical, the Bonneau division, launched the Roberto Morelli/Studio Optique 12-style designer line with hand-crafted frames which accommodate prescription lenses. Penn Optics also produced a new display system featuring color photography of real-life situations.

Opti-Ray developed the upscale fashion 16-style Optivision Reading-Specs line with upgraded fixturing. Magnivision unveiled the Gold Collection featuring fashion spring hinges; and, in its regular line, tinted bi-focals.

Lynn Roberts International, Crown Sunglasses, and Cable Car Sunglasses were among companies also gaining retailers' attention.

Vendor housekeeping is critical, even with new fixtures that deepen inventory and help relieve concern about out-of-stocks. Stores must also insure that glasses are placed in their correct slot when misplaced by shoppers.

Many buyers feel expanded assortments make sense, because shoppers often like to buy multiples as replacements and extra convenient pairs.

The Industry Spoke... and SHOPA Listened.

SHOPA...a newly formed School and Home Office Products Association of retail buyers and manufacturers

"Timing for the stationery trade show is very important. It must be scheduled to allow time to develop a recommendation for our stores' advertising and promotional plans."
—*Merry Ballweber, Fred Meyer*

"I want a four-day working show with appointments to preview products and programs with all my vendors. That's why I'm going to the SHOPA SHOW."—*Debbie Kelly, Walgreens*

"Providing what customers want is at the heart of any business. Retailers have asked for an earlier show in a 'friendlier' location for years. Now we can provide what they have wanted with this Association-sponsored event."—*Rex Miller, Mead Corporation*

"Exhibiting at the SHOPA SHOW will save us money. New Orleans is one of the least expensive convention sites. But even if it were more, seeing buyers before decisions are made is the only efficient use of our resources."
—*Charlie O'Neil, Stuart Hall*

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Safeway stock sale will fund capital expenditures

OAKLAND, Calif. — Safeway has filed with the Securities and Exchange Commission a proposed public offering of 10 million common shares. Proceeds will help fund a five-year capital budget that doubles spending of the previous five years.

Safeway did not say how much it hoped to raise, but the stock was trading at $17 per share at the time of the announcement in mid-March, and it closed at $21.50 on April 12.

The shares would represent about 8 percent of outstanding shares on a fully diluted basis. Shares will be newly issued, and existing stockholders—including controlling owner Kohlberg, Kravis Roberts & Co.—will not be selling any of their shares, Safeway said in its registration statement.

Two of the eight million shares are being sold abroad, with the sale making 89.3 million shares outstanding.

KKR, which purchased the supermarket giant and took it private in a LBO in 1986, will own about 73 percent of outstanding common stock through two partnerships after the offering. Before the sale, it owned 82 percent of shares. Other investors, mostly management, own 2.7 million shares and options to purchase 6.8 million.

Safeway is funding a $3.2 billion five-year capital spending budget. About half the amount will be for new and replacement stores, 25 percent for remodeling and maintenance, and the rest for support operations such as distribution. The efforts will be in existing markets, which include Western and Northwestern states and markets in western Canadian provinces.

Having restructured extensively since 1986—mostly through the sales of $2.4 billion worth of assets and facilities—Safeway raised $120 million in April, 1990 with the sale of 11.5 million common shares.

Total debt has dropped from $5.8 billion at the time of the LBO to $3.1 billion in 1990. In the prospectus, Safeway said that sales have grown from $13.6 billion in 1988 to $14.9 billion in 1990. Operating profits went from $398.9 million in 1988 to $535.3 million in 1990, and from 2.9 percent of sales to 3.6 percent of sales in those years.

SGC hits black ink in fourth qtr., as 12-month earnings gain 9%

WOODBRIDGE, N.J. — Supermarkets General Corp. hit black ink in its fourth quarter, as 12-month operating earnings climbed 9 percent (including a one-time charge) from the previous year, the company reported.

For the quarter ended Feb. 2, 1991, the owner of Pathmark posted its first positive net earnings since its 1987 leveraged buyout. Net earnings were $4.7 million, compared with a $1.7 million loss in the comparable quarter last year. (The 1990 quarter included a $2 million restructuring charge).

The positive results were due to 6 percent higher operating earnings, which were affected by tighter expense controls and lower interest expenses. Fourth-quarter sales were $1.5 billion, 9 percent less than in the 1990 quarter.

For the year, which ended before the completion of a February recapitalization, sales were $6.1 billion, 2 percent less than last year.

Operating earnings were $194.2 million, 30 percent higher than last year, including a $36.2 million restructure charge last year.

SGC showed a net earnings loss of $41.4 million for the year, after interest expenses of $165 million, $77 million in non-cash charges, and a $7.1 million tax benefit. SGC had a $76.5 million loss in 1990.

Jack Futterman, chairman, president, and ceo, said that since the LBO, operating earnings have increased an average of 13 percent a year.

In a move to improve its balance sheet and reduce costs, SGC completed a recapitalization with an equity investment of $83.5 million. It reduced debt by $100 million, preferred stock by $52 million, and interest and dividend expenses were slashed by $14 million total.

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Vol. 13, No. 8 Apr. 22, 1991

MARKET DIARY:

Largest Dollar Gainer	Syntex Corp.	$ 7.75
Largest Dollar Loser	Rhone-Poulenc Rorer	$– 2.00
Largest Percentage Gainer	Big B	20.51%
Largest Percentage Loser	Halsey Drug	–11.12%

Advances	47
Declines	9
Unchanged	1
New highs	30
New lows	0

	Close 3/19/91	Close 4/8/91	Net Change	Percent Change
Drug Store News Index	3899.05	4153.48	254.43	6.53
Dow Jones Industrial Average	2867.82	2918.56	50.74	1.77
Standard & Poor's 500-Stock Index	366.59	378.66	12.07	3.29
N.Y.S.E. Composite	200.66	207.17	6.51	3.24
Value Line Index	231.03	241.14	10.11	4.38

Source: Nordby International Inc., Boulder, Colo.

DRUG STORE NEWS INDEX

Exch	Company	Ticker Symbol	Closing Price 3/19/91	Closing Price 4/8/91	Net Change In Period	Percent Change In Period	P/E Ratio	Annual Dividend Rate	Annual Dividend Yield	Annual High	Annual Low
Chain store transactions											
OTC	Accuhealth Inc.	ACCU	6.75	6.75	0.00	0.00	26	0.00	0.00	7.56	4.50
OTC	Arbor Drugs (H)	ARBR	24.50	27.50	3.00	12.24	22	0.20	0.73	27.50	13.25
OTC	Big B (H)	BIGB	9.75	11.75	2.00	20.51	– 62	0.00	0.00	12.13	4.75
OTC	Drug Emporium	DEMP	8.88	9.00	0.13	1.41	14	0.12	1.33	11.00	6.25
NYS	Fay's Inc. (H)	FAY	11.50	13.13	1.63	14.13	16	0.20	1.52	13.13	7.25
ASE	Genovese Drug (H)	GDX.A	9.63	10.75	1.13	11.69	13	0.24	2.23	10.88	5.50
NYS	Longs Drug Stores	LDG	38.88	41.25	2.38	6.11	14	1.04	2.52	43.63	30.88
OTC	Medicine Shoppe	MSII	23.25	25.50	2.25	9.68	22	0.24	0.94	26.75	15.50
NYS	Perry Drug	PDS	6.38	6.50	0.13	1.96	– 65	0.00	0.00	9.88	3.75
NYS	Rite Aid Corp. (H)	RAD	43.50	46.63	3.13	7.18	18	1.00	2.14	47.00	29.50
NYS	Walgreen Co. (H)	WAG	31.88	35.50	3.63	11.37	24	0.44	1.24	35.75	20.63
Wholesaler's transactions											
ASE	Bergen Brunswig	BBC	30.75	32.50	1.75	5.69	17	0.40	1.23	32.75	21.38
OTC	Bindley Western Ind.	BIND	15.88	17.25	1.38	8.66	17	0.04	0.23	17.63	8.63
OTC	Cardinal Distribution (H)	CDIC	34.00	37.25	3.25	9.56	31	0.08	0.21	38.25	17.50
OTC	Durr-Fillauer	DUFM	28.00	30.25	2.25	8.04	23	0.24	0.79	30.50	16.00
ASE	Ketchum	KCH	2.50	2.38	–0.13	– 5.00	– 4	0.00	0.00	2.75	1.25
NYS	McKesson Corp.	MCK	32.75	32.63	–0.13	– 0.38	15	1.60	4.90	37.50	26.88
ASE	Moore Medical	MMD	5.38	5.63	0.25	4.65	24	0.00	0.00	7.38	3.50
NYS	Owens & Minor (H)	OMI	18.25	19.50	1.25	6.85	19	0.24	1.23	20.00	10.88
Manufacturer's transactions											
NYS	Abbott Labs (H)	ABT	47.50	49.75	2.25	4.74	22	1.00	2.01	50.75	33.13
NYS	American Home Products (H)	AHP	56.00	58.25	2.25	4.02	15	2.28	3.91	59.88	43.00
NYS	Baxter International (H)	BAX	30.88	34.63	3.75	12.15	–247	0.72	2.08	35.50	20.50
OTC	Block Drugs Co. (H)	BLOCA	48.00	53.50	5.50	11.46	19	0.80	1.50	53.50	29.63
ASE	Bolar Pharmaceutical	BLR	5.63	5.13	–0.50	– 8.89	– 4	0.00	0.00	9.38	1.88
NYS	Bristol-Myers Squibb (H)	BMY	74.00	78.25	4.25	5.74	24	2.40	3.07	80.38	51.75
NYS	Carter-Wallace (H)	CAR	59.88	63.75	3.88	6.47	18	0.92	1.44	63.75	44.88
ASE	Columbia Labs	COB	7.63	8.25	0.63	8.20	– 5	0.00	0.00	14.00	3.63
ASE	Forest Labs (H)	FRX	36.25	38.25	2.00	5.52	44	0.00	0.00	42.13	18.38
ASE	Halsey Drug	HDG	3.94	3.50	–0.44	–11.12	22	0.00	0.00	5.00	2.13
NYS	ICN Pharmaceutical	ICN	5.00	5.63	0.63	12.50	– 2	0.00	0.00	6.13	2.50
ASE	Lee Pharmaceutical	LPH	1.50	1.38	–0.13	– 8.33	– 6	0.00	0.00	2.75	0.88
ASE	Leiner P. Nutrition (H)	PLI	11.50	12.75	1.25	10.87	11	0.00	0.00	12.75	6.75
NYS	Lilly Eli Co.	LLY	76.38	82.25	5.88	7.69	21	2.00	2.43	90.38	64.50
NYS	Marion Labs	MKC	38.38	38.50	0.13	0.33	22	0.80	2.08	39.63	22.75
NYS	Merck Co. (H)	MRK	101.50	108.00	6.50	6.40	24	2.24	2.07	109.75	71.63
NYS	Mylan Labs (H)	MYL	23.88	27.00	3.13	13.09	30	0.20	0.74	28.00	13.75
NYS	Par Pharmaceutical	PRX	4.75	4.50	–0.25	– 5.26	– 3	0.00	0.00	8.13	3.38
NYS	Pfizer Inc. (s) (H)	PFE	50.31	57.00	6.69	13.29	24	1.32	2.32	58.38	27.50
NYS	Rhone-Poulenc Rorer	RPR	81.50	79.50	–2.00	– 2.45	–153	0.84	1.06	83.25	56.75
NYS	Schering Plough	SGP	49.00	49.38	0.38	0.77	20	1.12	2.27	52.25	39.75
NYS	Syntex Corp. (H)	SYN	74.38	82.13	7.75	10.42	23	1.60	1.95	84.38	48.75
OTC	Taro-Vit Industries (H)	TAROF	3.75	4.25	0.50	13.33	–106	0.00	0.00	4.25	0.88
NYS	Upjohn Co. (H)	UPJ	43.38	48.00	4.63	10.66	19	1.16	2.42	48.75	33.00
NYS	Warner-Lambert	WLA	70.75	77.50	6.75	9.54	21	1.76	2.27	82.25	52.13
OTC	Zenith Labs (H)	ZENL	7.00	8.25	1.25	17.86	– 1	0.00	0.00	10.00	3.75
Other retailer transactions											
NYS	Albertson's (H)	ABS	42.00	47.00	5.00	11.90	27	0.56	1.19	49.25	27.50
NYS	American Stores (H)	ASC	82.50	88.63	6.13	7.42	17	1.12	1.26	88.63	42.63
NYS	Giant Food	GFS.A	29.00	29.75	0.75	2.59	15	0.60	2.02	31.25	21.13
NYS	Great Atlantic&Pacific Tea	GAP	54.00	53.63	–0.38	– 0.69	14	0.80	1.49	59.63	37.75
NYS	Kmart (H)	KM	38.88	41.50	2.63	6.75	11	1.72	4.14	43.50	23.38
NYS	Kroger (H)	KR	21.00	23.88	2.88	13.69	25	0.00	0.00	24.50	10.63
NYS	Melville Corp.	MES	49.00	51.75	2.75	5.61	14	1.44	2.78	57.75	32.75
OTC	Fred Meyer	MEYR	16.75	16.25	–0.50	– 2.99	12	0.00	0.00	18.25	10.00
NYS	Penney, JC	JCP	51.63	53.38	1.75	3.39	12	2.64	4.95	70.13	37.38
NYS	Safeway (H)	SWY	18.13	21.38	3.25	17.93	23	0.00	0.00	21.38	10.25
NYS	Smith's Food & Drug (H)	SFD	38.75	42.00	3.25	8.39	31	0.36	0.86	43.75	24.75
NYS	Wal-Mart (H)	WMT	36.75	42.13	5.38	14.63	37	0.16	0.38	42.13	24.00

Note: Pfizer completed a 2-for-1 stock split.

Key: (H) = New annual high reached in the bi-weekly period. (L) = New annual low reached in the bi-weekly period. (d) = Deficit. NYS = New York. ASE = American. OTC = Over the counter. (s) = Reflects stock split.
Source: Nordby International, Inc., Boulder, Colorado (303) 449-0326.

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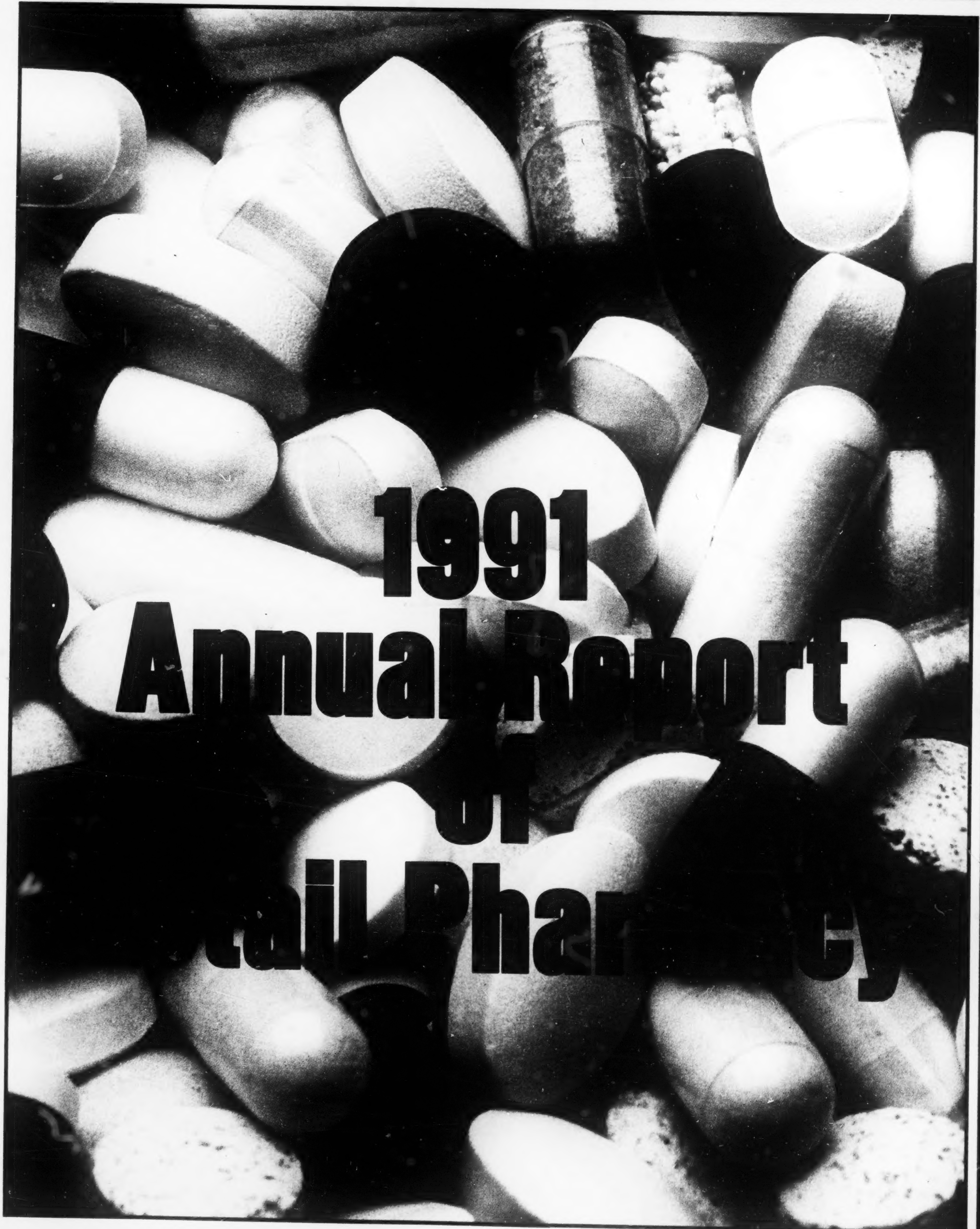

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editor's note

Readers speak out on Pharm.D

With the mailbox beginning to fill and little space to run letters, I thought I'd turn over this month's column to some our readers. Some of the letter concern last month's column on the Pharm.D. controversy. They're part of the replies that have been arriving daily in response to my Pharmacist Opinion Poll, in which I asked you to vote on whether to keep the present five-year B.S. degree as the entry requirement or change it to a Pharm.D. I'll report on the results next month.

* * *

I feel that a five-year B.S. in Pharmacy is a fine degree for community pharmacists. If so inclined, the option is there for us to climb the academic ladder; if not, it serves us well.

"Forced" Pharm.D degrees raise expectations of graduates that will certainly be dashed the first time they have to sweep the floor, stock a shelf or answer a question about hair color. The B.S. program is a great general plan to prepare us for what community pharmacy really is. Anyone not wishing for this practice setting can specialize, just as in other professions, while the prior B.S. program has given the specialist a foundation on which to build.

Charity A. Webster, R.Ph.

* * *

I am the owner of a small clinic pharmacy and am very much against going to an all-Pharm.D degree program. I am not trying to degrade what the average retail pharmacist does at their job, but the extra "clinical" education is just not needed. I am not saying the extra knowledge is not a good thing, but the extra cost for that education which will be used so little seems like a waste of money.

I am in favor of an all-Pharm.D program that would have two different tracts for people to select from: the clinical track for those who want to be in hospital-type work and business management track for those who want to work in the retail-type setting. I believe the business management training part of any pharmacy training is desperately needed. And I don't just mean for one quarter or semester. I also feel that the academic people who make these decisions should go and work for a short time in a chain store pharmacy and a small independent pharmacy and get a feel for what goes on in the real world.

Colleen Horeish, R.Ph.
Lake Elmo, Minn.

* * *

I am avidly in favor of change to a minimum licensing requirement of Pharm.D to newly licensed graduates. Having been employed as a chain pharmacist for 10 years, I feel a definite change is needed in the way pharmacy is practiced. The government recognizes the need for the pharmacist to possess a more expanded role in the management of health care. The pharmacist will be expected to lower the number of adverse drug interactions that occur annually. The general public expects information from their pharmacists including how to take their medictions and what side effects they can expect. A pharm.D graduate is better trained for such functions. With more sophisticated biotechnology drugs coming to the market, more education will be needed by the practicing pharmacist.

Name withheld on request

Keep those cards and letters coming!

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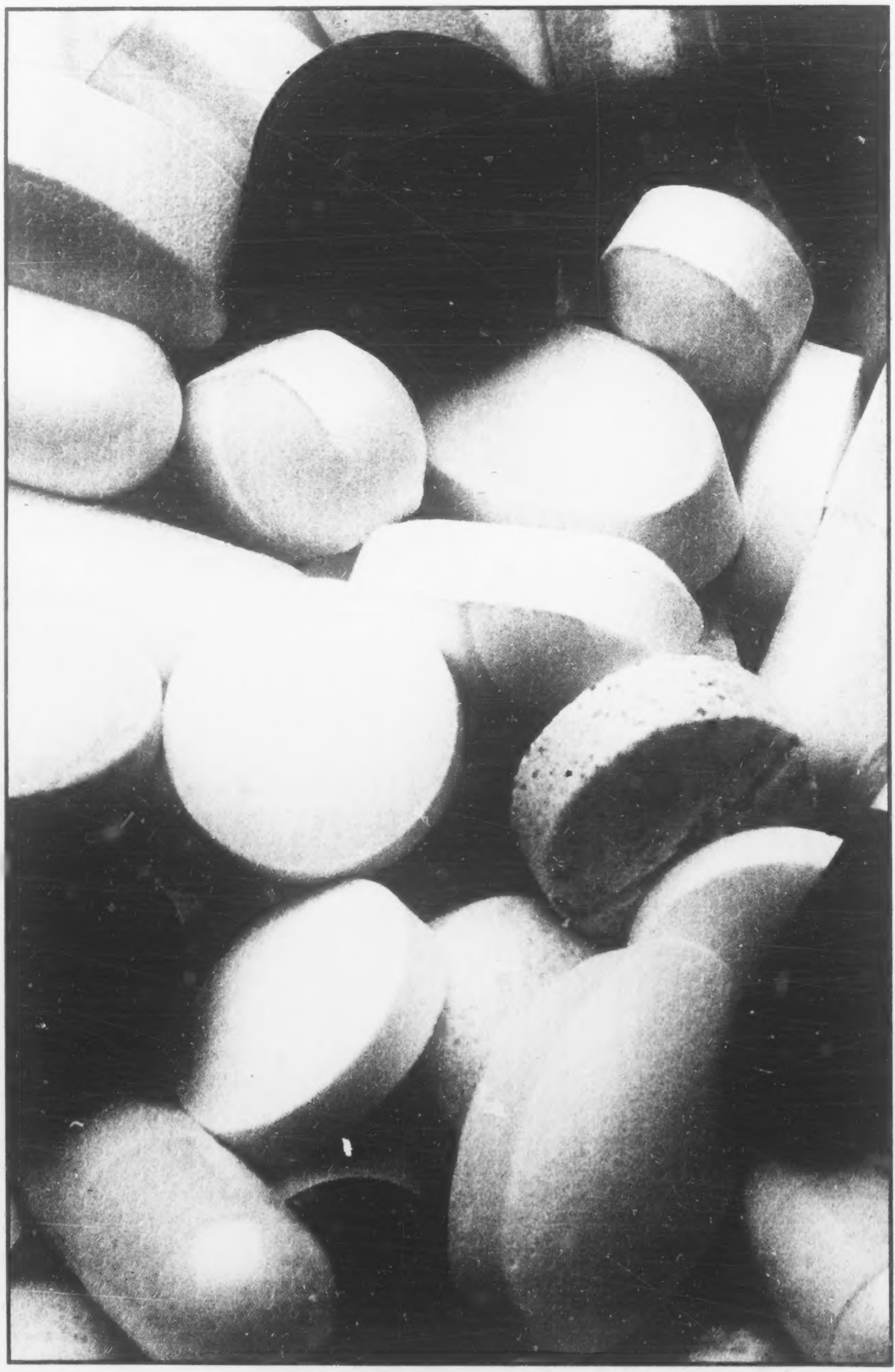
1990: A year of sales gains, tough issues



Retail pharmacy sales soared in 1990, propelled by hefty increases in the price of pharmaceutical products.

According to market statistics compiled and analyzed by *Drug Store News for the Pharmacist*, the price of an average prescription rose to $17.61 last year from $15.37 in 1989.

Based on price increases as well as a small incremental advance in the number of prescriptions, total retail pharmacy sales reached $35.9 billion last year. The biggest chunk of this volume—$15.6 billion—was done by community pharmacies in the one- to three-store range. However, the independents' share again shrank as competition from drug chains, supermarkets and mass market retailers gained momentum.

Chain drug pharmacy sales increased 14.4 percent to almost $14 billion. The steep rise, plus a deceleration in front-end dollar increases meant that the pharmacy share of total chain drug volume rose by almost two percentage points to 32.3 percent—a significant gain for a single year.

Supermarket/combo pharmacy sales, meanwhile, increased to $4.1 billion and mass market retailers' Rx volume rose to $2.2 million.

While prescription sales rose, retail pharmacy continued to be plagued by a host of problems including an increasing number of low-calorie third-party prescriptions, mail-order competition, a shortage of pharmacists, mandatory counseling laws, and other issues.

Third-party payors played an ever-increasing role in retail pharmacy. However, the news wasn't all bad, as computer companies developed sophisticated programs designed to help pharmacists with claims, without the expense of a mainframe system. Legislation was passed in Iowa and South Dakota guaranteeing third-party beneficiaries "freedom of choice" among participating retail pharmacies.

Pharmacists continued to battle over multi-tier pricing as they debated Sen. David Pryor's (D-ARK) PAPPA bill. Arizona lawmakers successfully prohibited exclusive contracts proposed by managed health care and insurance companies with prescription mail order facilities. And the new Medicaid Rebate Law stands to offer a leveling effect on pricing structures as they pertain to the Medicaid program. The law has produced a rippling effect in a number of states, which are trying to adopt similar concepts to apply to other state-assisted programs, such as those for senior citizens.

In addition, state Medicaid officials have been prohibited from cutting pharmacy reimbursement until 1995 under the final budget deficit reduction legislation.

The legislation also required pharmaceutical manufacturers to offer Medicaid some $1.9 billion in rebates over the next five years.

These are some of the other issues that are drawing the avid attention of retail pharmacy:

- The mandatory counseling debate rages on, as industry leaders tackle questions of whether regulation hinders or helps pharmacists in counseling patients.
- The debate over the pharmacy degree requirement gathers steam. ACPE last year recommended the Pharm.D. degree

Continued on page 18

Sales gains & tough issues in 1990

Continued from page 17

as the sole, entry-level degree for the profession. Pharmacists continue to debate this issue, which leads to questions concerning the pharmacist shortage, a "grandfather clause" for B.S. graduates, and possible funding for instituting increased clinical programs in all schools. While APhA supports the ACPE proposal, NACDS, along with SRI, produced a study indicating the five-year degree sufficient for retail pharmacy and warning that a mandatory Pharm.D. would exacerbate the pharmacist shortage.

- The generic drug industry continued to draw fire during the past year as federal prosecutors and Congressional investigators revealed mounting evidence of fraud and corruption by manufacturers and FDA officials alike. In Baltimore, U.S. attornies pressed for indictments of officials at a number of prominent generic houses accused of bribing government drug reviewers and submitting fraudulent abbreviated new drug applications.
- The generic industry scandal produced shock waves, but consumers and pharmacists continue to show their faith in generic products, mainly as an antidote to the rising cost of branded medicines.
- Mail order drug dispensaries developed into an even more significant market factor over the past year. In an increasingly aggressive effort to woo third party plans, mail order prescription services launched innovative and controversial programs. One of these, a therapeutic substitution iniative dubbed "Prescriber's Choice," was initiated recently by Medco Containment Services. The scheme, which is calculated to appeal to third-party cost-cutters, involves phone banks manned by pharmacist-telemarketers assigned to "jawbone" physicians into permitting substitution of different, cheaper but "therapeutically equivalent" drugs.
- Community pharmacists across the nation have been battling renewed assaults on the rights of patients to patronize the pharmacy of their choice. Increasingly, third-party payors have been seeking out arrangements with HMOs, preferred provider groups, and mail order dispensaries which would effectively lock community pharmacy out of the action. Meanwhile Medicaid officials at both the federal and state levels have been maneuvering to undermine the long-standing principle of freedom of choice. ☐

TOP FIFTY PHARMACY CHAINS

Rank	Chains	Pharmacies	Total stores
1	Rite Aid	2,337	2,420
2	Eckerd	1,650	1,674
3	Walgreens	1,504	1,564
4	Kmart	1,223	2,300
5	Revco	1,114	1,129
6	CVS (A)	1,100	1,351
7	Wal-Mart	1,095E	1,578
8	Hook-SupeRx Inc.	1,026	1,118
9	Medicine Shoppe	870	870
10	Thrifty	748	748
11	American (B)	681	681
12	Kroger	491	2,245
13	Thrift	487	487
14	Pay Less	318	321
15	Big B	305	307
16	Safeway	265	1,118
17	Longs	262	262
18	Reliable	260	262
19	Albertson's	258	523
20	Phar-Mor	232	232
21	Perry	228	228
22	Drug Emporium	212	212
23	Fay's	199	200
24	SGC-Pathmark (C)	170	276
25	K&B	159	160
26	Medi-Save	120E	125E
27	Lucky	118	411
28	Harco	113	115
29	Arbor	111	111
30	Super D	105E	105E
31	ShopKo (D)	103	107
32	Giant Food	102	150
33	Fred Meyer	96	122
34	Vons	96	328
35	Genovese	96	96
36	Smith Management	94	96
37	Kerr	92	92
38	H.E. Butt	92	154
39	Wakefern	89	110
40	Skaggs Alpha Beta	81	81
41	Medicap	75	75
42	Hannaford Bros. (E)	67	130
43	King Soopers	64	66
44	Apple Tree	64	96
45	Snyder	61	62
46	True Quality	61	61
47	LaVerdiere's	60	65
48	Meijer	56	59
49	F&M	53	96
50	Homeland	48	109

A. Includes Peoples and Rix-Dunnington
B. Includes Jewel Oscos with pharmacies.
C. Includes free-standing drug stores.
D. Includes two Twin Valu discount/food stores.
E. Includes 41 Wellby Drug stores.

Source: *Drug Store News for the Pharmacist* research, Towne-Oller

1990 Rx/OTC retail market

Store type	Hdqtrs.*	Total No. of pharmacy outlets	ACV $ vol. (in bil.)	% of Total	Rx* $ vol. (in bil.)	% of Rx $	OTC* $ vol. (in bil.)	% of OTC $ vol.
Chains (4 or more stores)	499	21,096	$ 43.2	24%	$14.0	39%	6.3	59%
2 & 3 store chains	0	2,645	3.5	2	2.2	6	0.6	4
High-volume independents	0	12,071	13.7	8	8.6	24	2.4	20
Community pharmacies	0	17,783	17.2	4	4.8	13	1.4	11
Total drug	499	53,595	$ 67.6B	38%	$29.6B	82%	$10.6B	87
Supermarkets/combos	133	4,291	79.1	44	4.1	12	1.1	9
Mass volume retailers	8	2,688	31.4	18	2.2	6	0.5	4
Total	640	60,674	$178.1B	100%	$35.9B	100%	$12.2B	100%

*Among units with pharmacies only

Source: Drug Store News Research, Chain Store Guide, Nielsen Marketing Research, Towne-Oller

First Databank drug price report

(1990 drug price change summary)

	All Rx products on market in 1990			All Rx products w/changes in 1990			
	# Rx prods	% total prods	Avg. % chg.	# prods w/chgs.	% total chgs.	Avg. % chg.	% of prods w/chgs.
All products	37,998	100.00	7.66%	14,863	100.00	19.57%	39.12%
Top 200 prods	1,503	3.96	9.95	1,111	7.47	13.47	73.92
Top 50 prods	459	1.21	11.22	416	2.80	12.38	90.63
Single-source prods	2,690	7.08	8.81	1,898	12.77	12.48	70.56
Multi-source prods	35,308	92.92	7.57	12,965	87.23	20.61	36.72
Misc. GI drugs	194	0.51	24.85	90	0.24	53.55	46.39
Tranquilizers	2,011	5.29	11.26	817	5.50	27.72	40.63
Vasodilating agents	1,268	3.34	10.07	448	3.01	28.51	35.33
Cardiac drugs	1,557	4.10	9.03	692	4.66	20.33	44.44

Source: First Databank

Analgesics boom continues with aging populace

'90 OTC Highlights

1990 OTC productivity in chain drug stores	'90 sales (add 000)	'90 % increase	% of category
Cough/cold (total)	$1,079,310	8.0%	16.9%
(tabs/caps/lozenges)	658,562	8.1	10.3
(liquids)	420,748	7.8	6.6
Analgesics	784,630	6.9	12.3
Dental care	647,083	7.7	10.1
Vitamins/nutritionals	593,183	6.2	9.3
Baby needs	501,650	8.2	7.9
Laxatives	347,868	6.1	5.5
Eye care/lens care	336,902	8.3	5.3
Family planning	336,101	8.4	5.3
Antacids	329,616	5.8	5.2
First aid products	323,827	5.9	5.1
Feminine hygiene	306,718	6.6	4.8
Footcare products	224,748	5.8	3.5
Diet aids	155,914	13.8	2.4
Antidiarrheal/anti-nausea	93,643	6.3	1.5
Acne preparations	92,692	9.8	1.5
Home health care	89,431	5.0	1.4
Sleeping aids	38,254	6.9	0.6
Wets & dries	32,668	2.8	0.5
Asthma inhalers/tabs/liq.	17,281	5.3	0.3
Miscellaneous	49,353	6.8	0.8
Total	$6,381,260		100.0%

Source: Drug Store News industry survey

The dynamic analgesics market kept retailers on their toes last year, as line extensions and absolute growth continued at a headache-inducing pace.

According to the New York-based market research firm Packaged Facts, overall sales volume for analgesics climbed to $2.7 billion, for 1990. Aggressive marketing by makers, the aggressive growth of ibuprofen-based products, an aging population trying to stay in shape and the stresses of living in the '90s (what with wars, bank failures and environmental calamities) all bode well for future growth, the company reported. Packaged Facts predicts that double-digit growth will push the market to $5.9 billion in volume by 1995.

Loses market share

Additional studies correlating aspirin's benefits in preventing heart attacks (the most recent confirming those benefits for women) did not keep aspirin's share of the market from sliding from 43.0 percent to 39.5 percent, according to Advertising Age. Acetaminophen lost a point, to 38.0 percent (with No. 1 Tylenol keeping a 30-percent share of the total analgesics market), while ibuprofens climbed.

Ibuprofens had a particularly interesting year. A run of bad press followed the release of a Johns Hopkins study that said the use of ibuprofen could induce kidney failure in patients with kidney problems, but consumers were apparently convinced that such problems were rare at best. Upjohn bowed its OTC-strength Motrin IB and immediately carved out 2 percent of the market, with $10 million in sales generated in less than a year. This put perhaps only a temporary dent in Whitehall's success with Advil, which was still the No. 2 player in analgesics with a 19-percent share and 53 percent of the ibuprofen segment.

"There was some fallout from the bad press," said the OTC buyer for a major Southeastern chain. "Advil had taken it on the chin, but that was only a result of Motrin IB coming into the marketplace."

"The aging of the population bodes well for the ibuprofen/anti-inflammatory products," said Jon Rudden, vp-merchandising for Happy Harry's.

"The ibuprofen market is becoming very popular—it is really going head-to-head with acetaminophen," added Philip Ho, vp-operations Horton & Converse.

'Nighttime' segment up

A "nighttime" analgesics segment emerged and caught retailers' interest. McNeil launched Tylenol P.M., which contained a sleep-inducing ingredient along with acetaminophen. The product targeted Bristol-Myers Squibb's Excedrin P.M.; both are aimed at consumers whose aches and pains prevent sleep.

Bristol-Myers Squibb had a tough year. It lost the first round of a court battle over claims its Aspirin Free Excedrin was superior to Extra-Strength Tylenol because it contained caffeine; the company said it would appeal and in the meantime brought back its "Excedrin Headache" ad campaign from the '60s. It stepped up ad support for Excedrin, primarily for the P.M. product, and for Nuprin ibuprofen, but the latter gained only 2 percent in sales for the year, to $90 million. Bristol repositioned Bufferin as the pain reliever of choice for the older consumer after having dropped ads promoting it as a preventive remedy for second heart attacks; the target market was too small, Bristol decided.

Drug store retailers made some inroads in market share, increasing their analgesics percentage from 35.9 percent to 36.1 percent for the eight months ended Aug. 31, 1990, according to Nielsen Marketing Research. Chains devoted an average of 65.8 linear feet to headache/pain relievers, and gathered an average $49.89 in sales per month/per store/per linear foot. ☐

Subcategories blur but cough/cold increases

'90 OTC Highlights

The cough/cold category continued to give drug store retailers fits this past year as manufacturers' new products and line extensions blurred subcategory boundaries and confused customers.

The market on the whole increased about 7 percent, according to Schering-Plough figures, to $2.3 billion in sales. Retailers report that planogramming the department, first by subcategory (into cold remedies, sinus products, nasal sprays, allergy products, and cough preparations), and then after that by brand, helped mitigate confusion.

"I think it makes it a lot clearer when you have it broken up like that," observed Pam Nyberg, HBA buyer for Perry Drug Stores, Pontiac, Mich.

Confusion develops

However, this year manufacturers introduced multi-use products such as Tylenol's Cold/Flu and Allergy/Sinus preparations, or Alka-Seltzer Plus Sinus Allergy Medicine, and frustration often resulted.

"Candidly, I think the manufacturers have caused the confusion with line extensions that are not necessary," said Gerald Zlotnik, vp-director of purchasing for 21-store Medic Discount Drug, Cleveland. "I've not seen that many products that could be considered truly novel."

Non-drowsy products, flu remedies, effervescent delivery systems and the continued success of Rx-to-OTC switched products were all cited by retailers as driving cough/cold sales.

"The non-drowsy products have taken over the marketplace," noted Zlotnik, referring to the acceptance shown Drixoral's Non-Drowsy Formula, Tylenol Cold No-Drowsiness Formula, Sudafed Sinus w/o Drowsiness, and Afrin tablets.

Flu products forge ahead

Flu products had considerable success their first full year in the marketplace. Thera-Flu was joined by Medi-Flu, Drixoral Plus and Tylenol Cold/Flu; together the products racked up $45 million in sales, said Schering-Plough.

"The biggest product we ran into all year was Thera-Flu, and then McNeil came out with their own brand," said Mike Fitzgerald, non-foods buyer for the 20-store Drugtown Drugstores division of Hy-Vee Food Stores, Chariton, Iowa.

Perry's Nyberg saw inroads for effervescent delivery systems. "It seems like a lot of people are going towards the effervescent products, and the hot ones," she said.

But the continued success of Benadryl, the No. 1 brand in the market, left retailers eying further success when Marion Merrell Dow's Seldane and Johnson & Johnson's Hismanal make the Rx-to-OTC switch. FDA approval for both is expected in 1992.

"Anything that goes Rx-to-OTC in this market will do well," said Nyberg.

"We promote heavily on the drugs that have switched from Rx to OTC," noted Philip Ho, vp-operations for Horton & Converse Pharmacies, Newport Beach, Calif. "Benadryl has been pretty popular, and we set it at eye level."

Retailers also agreed that the cough/cold business still remains a seasonal one, particularly for cough remedies, even though the combination formulated pills and tablets move well all year. The general approach toward seasonal remedies was to group best-sellers on endcaps.

> 'It seems like a lot of people are going towards the effervescent products,' said Pam Nyberg, Perry.

Opportunity for pharmacists

The category offered pharmacists plenty of recommendation opportunities as well, as consumers sorted through shelves.

"Maybe ten to twenty percent of our customers will walk up to the pharmacist and ask for recommendations," said Ho. "Or, since our setting encourages patient contact, the pharmacist will approach the patient and assist them in deciding."

For the eight months ended Aug. 31, 1990, drug stores had 43.3 percent of the cold remedy business, down from 43.6 percent a year earlier, according to Nielsen Marketing Research. Similar slippage appeared for sinus remedies. □

Sales fatten for meal replacements

If there was a singular piece of product news to define mass merchandising for 1990, it would be that the meal replacement category grew up.

The excitement that the bulky canisters of powder had built over the past few years had caught up with virtually every major drug, supermarket and discount chain nationwide. More major suppliers came to the fray, although Thompson Medical's SlimFast, the market leader whose very name had become synonymous with dieting, still held by far the lion's share of the business. Line extensions started to proliferate. Intra-store turf wars ignited in the supermarket chains between profit-hungry merchandise managers.

Profit race begins

But once the dust had cleared, an inevitable reality emerged for retailers: the stuff was everywhere, and the race for profits, it turned out, had only just begun.

Nationwide, sales of meal replacements were up an incredible 38.8 percent, to $900 million, according to Lederle's Consumer Health Products Division

Continued on page 26

> Sales of meal replacements were up an incredible 38.8 percent, according to Lederle.

NIFEDIPINE CAPSULES, USP

Brief Summary

INDICATIONS AND USAGE:

I. Vasospastic Angina: Nifedipine is indicated for the management of vasospastic angina confirmed by any of the following criteria: 1) classical pattern of angina at rest accompanied by ST segment elevation, 2) angina or coronary artery spasm provoked by ergonovine, or 3) angiographically demonstrated coronary artery spasm. In those patients who have had angiography, the presence of significant fixed obstructive disease is not incompatible with the diagnosis of vasospastic angina, provided that the above criteria are satisfied. Nifedipine may also be used where the clinical presentation suggests a possible vasospastic component but where vasospasm has not been confirmed, e.g., where pain has a variable threshold on exertion or in unstable angina where electrocardiographic findings are compatible with intermittent vasospasm, or when angina is refractory to nitrates and/or adequate doses of beta blockers.

II. Chronic Stable Angina (Classical Effort-Associated Angina): Nifedipine is indicated for the management of chronic stable angina (effort-associated angina) without evidence of vasospasm in patients who remain symptomatic despite adequate doses of beta blockers and/or organic nitrates or who cannot tolerate those agents.

In chronic stable angina (effort-associated angina) nifedipine has been effective in controlled trials of up to eight weeks duration in reducing angina frequency and increasing exercise tolerance, but confirmation of sustained effectiveness and evaluation of long term safety in these patients are incomplete.

Controlled studies in small numbers of patients suggest concomitant use of nifedipine and beta blocking agents may be beneficial in patients with chronic stable angina, but available information is not sufficient to predict with confidence the effects of concurrent treatment, especially in patients with compromised left ventricular function or cardiac conduction abnormalities. When introducing such concomitant therapy, care must be taken to monitor blood pressure closely since severe hypotension can occur from the combined effects of the drugs. (See WARNINGS.)

CONTRAINDICATIONS:

Known hypersensitivity reaction to nifedipine.

WARNINGS:

Excessive Hypotension: Although in most patients, the hypotensive effect of nifedipine is modest and well tolerated, occasional patients have had excessive and poorly tolerated hypotension. These responses have usually occurred during initial titration or at the time of subsequent upward dosage adjustment, and may be more likely in patients on concomitant beta blockers.

Severe hypotension and/or increased fluid volume requirements have been reported in patients receiving nifedipine together with a beta blocking agent who underwent coronary artery bypass surgery using high dose fentanyl anesthesia. The interaction with high dose fentanyl appears to be due to the combination of nifedipine and a beta blocker, but the possibility that it may occur with nifedipine alone, with low doses of fentanyl, in other surgical procedures, or with other narcotic analgesics cannot be ruled out. In nifedipine treated patients where surgery using high dose-fentanyl anesthesia is contemplated, the physician should be aware of these potential problems and, if the patient's condition permits, sufficient time (at least 36 hours) should be allowed for nifedipine to be washed out of the body prior to surgery.

Increased Angina and/or Myocardial Infarction: Rarely, patients, particularly those who have severe obstructive coronary artery disease, have developed well documented increased frequency, duration and/or severity of angina or acute myocardial infarction on starting nifedipine or at the time of dosage increase. The mechanism of this effect is not established.

Beta Blocker Withdrawal: Patients recently withdrawn from beta blockers may develop a withdrawal syndrome with increased angina, probably related to increased sensitivity to catecholamines. Initiation of nifedipine treatment will not prevent this occurrence and might be expected to exacerbate it by provoking reflex catecholamine release. There have been occasional reports of increased angina in a setting of beta blocker withdrawal and nifedipine initiation. It is important to taper beta blockers if possible, rather than stopping them abruptly before beginning nifedipine.

Congestive Heart Failure: Rarely, patients, usually receiving a beta blocker, have developed heart failure after beginning nifedipine. Patients with tight aortic stenosis may be at greater risk for such an event, as the unloading effect of nifedipine would be expected to be of less benefit to these patients, owing to their fixed impedance to flow across the aortic valve.

PRECAUTIONS:

General: Hypotension: Because nifedipine decreases peripheral vascular resistance, careful monitoring of blood pressure during the initial administration and titration of nifedipine is suggested. Close observation is especially recommended for patients already taking medications that are known to lower blood pressure. (See WARNINGS.)

Peripheral Edema: Mild to moderate peripheral edema, typically associated with arterial vasodilation and not due to left ventricular dysfunction, occurs in about one in ten patients treated with nifedipine. This edema occurs primarily in the lower extremities and usually responds to diuretic therapy. With patients whose angina is complicated by congestive heart failure, care should be taken to differentiate this peripheral edema from the effects of increasing left ventricular dysfunction.

Laboratory Tests: Rare, usually transient, but occasionally significant elevations of enzymes such as alkaline phosphatase, CPK, LDH, SGOT and SGPT have been noted. The relationship to nifedipine therapy is uncertain in most cases, but probable in some. These laboratory abnormalities have rarely been associated with clinical symptoms, however, cholestasis with or without jaundice has been reported. Rare instances of allergic hepatitis have been reported.

Nifedipine, like other calcium channel blockers, decreases platelet aggregation *in vitro*. Limited clinical studies have demonstrated a moderate but statistically significant decrease in platelet aggregation and increase in bleeding time in some nifedipine patients. This is thought to be a function of inhibition of calcium transport across the platelet membrane. No clinical significance for these findings has been demonstrated.

Positive direct Coombs test with/without hemolytic anemia has been reported.

Although nifedipine has been used safely in patients with renal dysfunction and has been reported to exert a beneficial effect in certain cases, rare, reversible elevations in BUN and serum creatinine have been reported in patients with preexisting chronic renal insufficiency. The relationship to nifedipine therapy is uncertain in most cases but probable in some.

Drug Interactions: ***Beta-adrenergic blocking agents:*** (See INDICATIONS and WARNINGS.) Experience in over 1400 patients in a non-comparative clinical trial has shown that concomitant administration of nifedipine and beta-blocking agents is usually well tolerated, but there have been occasional literature reports suggesting that the combination may increase the likelihood of congestive heart failure, severe hypotension or exacerbation of angina.

Long acting nitrates: Nifedipine may be safely co-administered with nitrates, but there have been no controlled studies to evaluate the antianginal effectiveness of this combination.

Digitalis: Administration of nifedipine with digoxin increased digoxin levels in nine of twelve normal volunteers. The average increase was 45%. Another investigator found no increase in digoxin levels in thirteen patients with coronary artery disease. In an uncontrolled study of over two hundred patients with congestive heart failure during which digoxin blood levels were not measured, digitalis toxicity was not observed. Since there have been isolated reports of patients with elevated digoxin levels, it is recommended that digoxin levels be monitored when initiating, adjusting, and discontinuing nifedipine to avoid possible over- or under-digitalization.

Coumarin anticoagulants: There have been rare reports of increased prothrombin time in patients taking coumarin anticoagulants to whom nifedipine was administered. However, the relationship to nifedipine therapy is uncertain.

Cimetidine: A study in six healthy volunteers has shown a significant increase in peak nifedipine plasma levels (80%) and area-under-the-curve (74%) after a one week course of cimetidine at 1000 mg per day and nifedipine at 40 mg per day. Ranitidine produced smaller, non-significant increases. The effect may be mediated by the known inhibition of cimetidine on hepatic cytochrome P-450, the enzyme system probably responsible for the first-pass metabolism of nifedipine. If nifedipine therapy is initiated in a patient currently receiving cimetidine, cautious titration is advised.

Carcinogenesis, Mutagenesis, Impairment of Fertility: Nifedipine was administered orally to rats for two years and was not shown to be carcinogenic. When given to rats prior to mating, nifedipine caused reduced fertility at a dose approximately 30 times the maximum recommended human dose. *In vivo* mutagenicity studies were negative.

Pregnancy: Pregnancy Category C. Nifedipine has been shown to be teratogenic in rats when given in doses 30 times the maximum recommended human dose. Nifedipine was embryotoxic (increased fetal resorptions, decreased fetal weight, increased stunted forms, increased fetal deaths, decreased neonatal survival) in rats, mice and rabbits at doses of from 3 to 10 times the maximum recommended human dose. In pregnant monkeys, doses 2/3 and twice the maximum recommended human dose resulted in small placentas and underdeveloped chorionic villi. In rats doses three times maximum human dose and higher caused prolongation of pregnancy. There are no adequate and well controlled studies in pregnant women. Nifedipine should be used during pregnancy only if the potential benefit justifies the potential risk to the fetus.

ADVERSE REACTIONS:

In multiple-dose U.S. and foreign controlled studies in which adverse reactions were reported spontaneously, adverse effects were frequent but generally not serious and rarely required discontinuation of therapy or dosage adjustment. Most were expected consequences of the vasodilator effects of nifedipine.

Adverse Effect	Nifedipine (%) (N=226)	Placebo (%) (N=235)
Dizziness, lightheadedness, giddiness	27	15
Flushing, heat sensation	25	8
Headache	23	20
Weakness	12	10
Nausea, heartburn	11	8
Muscle cramps, tremor	8	3
Peripheral edema	7	1
Nervousness, mood changes	7	4
Palpitation	7	5
Dyspnea, cough, wheezing	6	3
Nasal congestion, sore throat	6	8

There is also a large uncontrolled experience in over 2100 patients in the United States. Most of the patients had vasospastic or resistant angina pectoris, and about half had concomitant treatment with beta-adrenergic blocking agents. The most common adverse events were:

Incidence Approximately 10%

Cardiovascular: peripheral edema

Central Nervous System: dizziness or lightheadedness

Gastrointestinal: nausea

Systemic: headache and flushing, weakness

Incidence Approximately 5%

Cardiovascular: transient hypotension

Incidence 2% or Less

Cardiovascular: palpitation

Respiratory: nasal and chest congestion, shortness of breath

Gastrointestinal: diarrhea, constipation, cramps, flatulence

Musculoskeletal: inflammation, joint stiffness, muscle cramps

Central Nervous System: shakiness, nervousness, jitterness, sleep disturbances, blurred vision, difficulties in balance

Other: dermatitis, pruritus, urticaria, fever, sweating, chills, sexual difficulties.

Incidence Approximately 0.5%

Cardiovascular: syncope. Syncopal episodes did not recur with reduction in the dose of nifedipine of concomitant antianginal medication.

Incidence Less Than 0.5%

Hematologic: thrombocytopenia, anemia, leukopenia, purpura

Gastrointestinal: allergic hepatitis

Oral: gingival hyperplasia

CNS: depression, paranoid syndrome

Special Senses: transient blindness at the peak of plasma level

Other: erythromelalgia, arthritis with ANA (+)

Several of these side effects appear to be dose related. Peripheral edema occurred in about one in 25 patients at doses less than 60 mg per day and in about one patient in eight at 120 mg per day or more. Transient hypotension, generally of mild to moderate severity and seldom requiring discontinuation of therapy, occurred in one of 50 patients at less than 60 mg per day and in one of 20 patients at 120 mg per day or more. Very rarely, introduction of nifedipine therapy was associated with an increase in anginal pain, possibly due to associated hypotension.

In addition, more serious adverse events were observed, not readily distinguishable from the natural history of the disease in these patients. It remains possible, however, that some or many of these events were drug related. Myocardial infarction occurred in about 4% of patients and congestive heart failure or pulmonary edema in about 2%. Ventricular arrhythmias or conduction disturbances each occurred in fewer than 0.5% of patients.

In a subgroup of over 1000 patients receiving nifedipine with concomitant beta blocker therapy, the pattern and incidence of adverse experiences was not different from that of the entire group of nifedipine treated patients. (See PRECAUTIONS).

In a subgroup of approximately 250 patients with a diagnosis of congestive heart failure as well as angina, dizziness or lightheadedness, peripheral edema, headache or flushing each occurred in one in eight patients. Hypotension occurred in about one in 20 patients. Syncope occurred in approximately one patient in 250. Myocardial infarction or symptoms of congestive heart failure each occurred in about one patient in 15. Atrial or ventricular dysrhythmias each occurred in about one patient in 150.

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Circle #12 on Reader Service Card

Meal replacement sales fatten up

Continued from page 22

(which bowed the DynaTrim brand at year's end), but retailers felt that that simply represented outlet saturation. Of that figure, Thompson Medical's SlimFast Division owned 95 percent of the market, Thompson claimed, while rolling out single-serving packets and pre-mixed cans for the beverage, as well as extending the line to include snack bars and frozen meals (this last item sparking the aforementioned grocery wars).

Other suppliers struggled to make their presence felt. Correction Connection's Dick Gregory Bahamanian Diet emphasized its juice-based powder for the lactose-intolerant or strict vegetarians. Nature's Bounty played up its gender-specific Slim Quick for Men and Slim Quick for Women. CCA Industries rounded out its Eat 'n Lose line to include both meal replacement powders and snack items.

Major entrant

Lederle's entrance into the fray at year's end with DynaTrim was widely anticipated by retailers. They welcomed the presence of a large, established supplier that was well-known to consumers through the Centrum vitamin franchise, and were intrigued by product claims that promised a better-tasting drink that could be thickened into a shake and even frozen to a mousse dessert.

Thompson took the launch seriously enough that the ensuing 48-hour broadcast war the two companies waged through New Year's Day 1991 was a television advertising highlight for the year.

Drug chains coped. Nielsen Marketing Research reported they devoted an average 28.8 linear feet to diet aids in their stores, and retailers admitted that powders were starting to squeeze diet pills out of their sets. Nielsen also reported average dollar sales per month/per linear foot/per chain drug store of $14.79, a figure reflecting the widespread discounting that quickly set it. ☐

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Circle #22 on Reader Service Card

Laxative sales see only minor dollar increase

'90 OTC Highlights

The laxative category as a whole has been flat of late.

According to manufacturers, laxatives tallied an overall total of $700 million in sales for bulk and overnight products. This represented only a 2 percent climb in dollar sales.

The reason, manufacturers say, is a fundamental change in America's eating habits. Sales for bulk laxatives in particular were steadily growing through 1988 they say, until it dawned on the public that consuming more fiber as a regular part of a healthy diet provided a more natural regimen than taking laxatives.

"It's very tough to compete against mother nature," said one brand manager in exasperation.

Manufacturers' strategies, then, have focused on maintaining the size of the market, rather than growing the category. The user base size is being continually renewed to a certain extent by an aging population, and this may ultimately spur the market again, but beyond that, manufacturers are using brand-oriented strategies to hold share, including new flavors, bonus sizes and price promotions.

"The category is maturing, and I think price has something to do with it," observed Bob Berman, vp-buying and merchandising, May's Drug Stores, Tulsa. "The people who are using the product are going where it is the cheapest to buy." Bulk laxatives, which make up 37.4 percent of the laxatives universe, have been a mainstay at May's, Berman added.

Procter & Gamble's Metamucil is the category leader with a 20.7 percent share, followed by Ex-Lax, with 8.2 percent, Plough's Correctol with 7.8 percent, and Phillip's Milk of Magnesia at 7.0 percent. Other players include Lakeside's Citrucel, Ciba Consumer's Fiberall, Rorer Consumer's Perdiem, SmithKline Beecham's Serutan ("That's natures spelled backwards"), and Lederle's Fibercon, among others.

Drug chains' share of the laxative market shrunk from 57.2 to 56.5 percent for the first eight months of 1990, according to Nielsen Marketing Research.

They devoted an average of 37.9 linear feet to the section per store, and generated an average $36.13 in sales per month/per store/per linear foot.

Fights flavor fatigue

Metamucil is providing some product development leadership, retailers said, fighting flavor fatique and trying other product formulations, although how successful this will be at building sales is open to question.

"I'm not sure it's going to get more people to the category," said Liz Spera, HBA buyer for 24-store Bill's Drugs, Benicia, Calif. "It may be a tradeoff between regular old chalky-taste and cherry, for example. They're adding more SKUs for consumers, but I don't think it's going to be real meaningful."

> *Manufacturers' strategies have focused on maintaining the size of the market.*

On the other hand, Culpepper is more sanguine.

"I think the reformulation of Metamucil is going to help. I think their 'citrus-smooth' product that will come out later this year will be a grat improvement. This is palatable—it's not like it's a bottle of wine—but you can swallow it, and I think that will help," Culpepper said.

Metamucil is also rolling a wafer product "that's supposed to be better than any cookie in the Nabisco section," added Berman. He plans to add it and hedge his bets on the category's future.

"I have to feel with the number of people over 40 right now, it should be a growing market again, and we want to stay in position to capture our share of that," he said. ☐

Vitamin merchandising changes with demand

Age-specific product, new delivery systems and a growing role for private label marked vitamin merchandising at drug stores this past year.

According to Nielsen Marketing Research figures, drug stores pulled in 55.5 percent of the vitamin business among the three major retail segments—drug, food and mass merchandiers—for the first eight months of 1990, down from the previous year's 56.6 percent. They provided an average 84 linear feet per store to the section, second only in space to sanitary protection, and rang up an average $23.54 per month/per store/per linear foot, as of last June.

Targeting mature consumers. . .

Retailers cited the release of Lederle's Centrum Silver, targeted to senior citizens, as the major new product news for the category.

"I think the makers are definitely keying in on the older marketplace," said Rick Babral of Reliable, "the so-called 'Greying of America.' Centrum Silver came out, there's Geritol Extend, and in private label we pretty much followed suit."

"The only new thing I've seen in the category this year is Centrum Silver, and it's doing a nice job," said the OTC buyer for a major Southeastern-based regional chain. "It's really getting that older customer."

"It must be the advertising and demographics research, Lederle certainly knows who's out there," observed Liz Spera, HBA buyer at Bill's Drugs. "They discovered that gardening was their target customers' favorite hobby, and so they came out with this floor display that had an offer for free marigold and tomato seeds when they bought the Centrum Silver. . . that did fairly well."

. . .and also kids

At the other end of vitamins' demographic range, Robocop, Hulk Hogan and Teenage Mutant Ninja Turtles vitamins battled with Flintstones, Sesame Street, Bugs Bunny and Superman for kids, and parents, attention, with mixed success reported by chains.

The growing presence of effervescent liquids as an OTC delivery system, which has been widely accepted in Europe for several years, was felt in vitamins stateside as Inter-Hermes Pharma, Inc., an American subsidiary of a Munich company, bowed its Multilyte effervescent multivitamin in a nationwide rollout. Inter-Hermes also marketed effervescent Calcilyte (Calcium and vitamin D) and Citrolyte (vitamin C). ☐

← Circle #025 on Reader Service Card

Retailers reposition antacids for planned Rx-to-OTC switch

Retailers are concerned about finding more shelf space for the proliferation of products and line extensions in the heated antacid market.

'90 OTC Highlights

Drug store retailers and suppliers spent the past year positioning themselves for the next big step in antacid product development: the long anticipated Rx-to-OTC switch of H-2 blockers.

SmithKline Beecham is leading the charge with an OTC-strength version of its anti-ulcer drug Tagamet, which it launched in 1978. Within five years it was the largest-selling prescription drug in America. Hard on its heels came Glaxo's Zantac and Marion Merrell Dow's Carafate; together they've pushed H-2 blocker sales over the $2 billion level, more than twice that of the OTC antacids market, according to the market research firm Packaged Facts.

Brands repositioning

Suppliers have prepared for the onslaught by repositioning their brands, making them more convenient to take, stronger, and better-tasting. Liquids such as Maalox, Pepto-Bismol, Di-Gel, Mylanta-II, Titralac and Gaviscon can also be bought as tablets, while Tums has crossed over to liquid form. Rorer, maker of Maalox, has taken a direct approach, reasserting the brand as an ethical pharmaceutical and giving it a high profile on detailers' agendas, believing that doctors who feel blockers might be overused would be attentive.

Other supplier activity saw SmithKline Beecham step up media support for Tums' cherry and extra-strength peppermint line extensions. Bristol-Myers announced in September it had started test-marketing a new caplet, Medacid, that was easier to take and quick-dissolving. Johnson & Johnson-Merck Consumer Pharmaceuticals firmed up plans to take Merck's anti-ulcer drug Pepcid OTC, and J&J's McNeil Consumer Products division test-marketed its Tylenol Extra-Strength Antacid, an effervescent. This product targeted Miles' Advance Formula Alka-Seltzer, a lemon-flavored, low-sodium, acetaminophen-based effervescent that had bowed at the end of 1989. Miles, in the meantime, is using its Alka-Seltzer name to target the allergy market with new Alka-Seltzer Plus Maximum Strength Sinus Allergy Medicine.

Meanwhile, Procter & Gamble gave Pepto-Bismol a Maximum Strength line extension, Warner-Lambert rolled out Extra Strength Rolaids, and Rorer brought out Maalox cherry cream and mint cream flavors for both liquids and tablets.

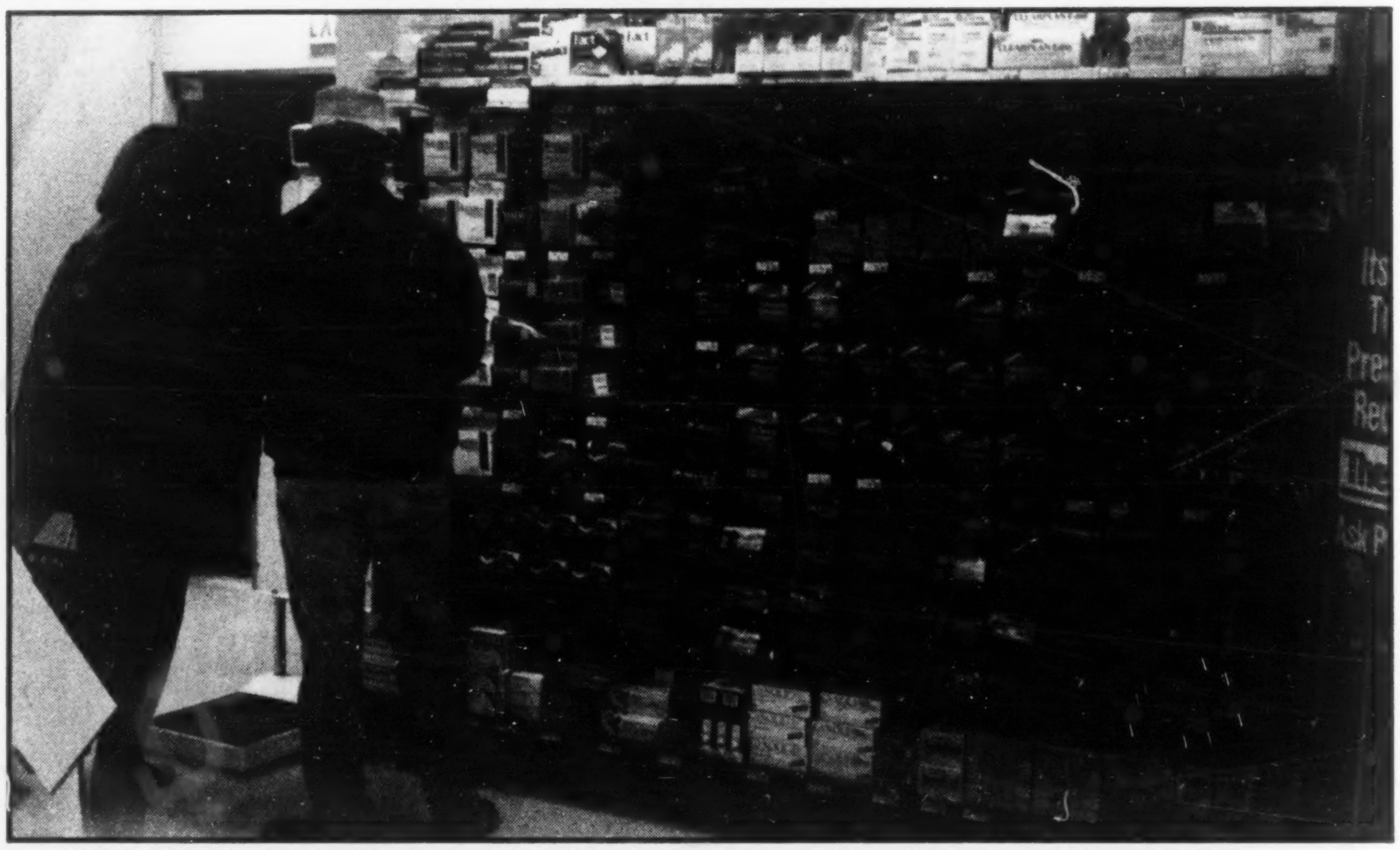
With all these line extensions, it's no wonder Nielsen Marketing Research reported that chain drug stores devoted an average of 42.5 linear feet per store in 1990, raking in an average of $27.46 in sales per month/per store/per linear foot. Retailers are assuming that trends towards self-medication, an aging marketplace and the anticipated Rx-to-OTC switches all bode well for future category growth.

"I think when the H-2s come across from pharmacy, there's going to be a dramatic changing of the guard," said Rick Babral, OTC buyer for Reliable Drug. "They're going to dramatically increase that category."

But retailers fear that whatever space they've set aside for this is being chewed up by the flood of line extensions.

"I think the manufacturers are all worried about Tagamet, so they're trying to give people a new excuse for taking antacids, and they take up more space," said Gerald Zlotnik, vp and director of purchasing for Medic Discount Drug. "We had anticipated some growth in the category, but that was for the introduction in a year or two of the Tagamet-like products," said the OTC buyer for a Midwestern-based drug chain. "But these line extensions are causing problems, and we're going to have to determine later in the year whether we dip into that extra space now, or hold back and make do. ☐

Drug stores have 70% of sales in flat condom market



Deep discounters like Rx Place carry a broad array of condoms in their planograms.

'90 OTC Highlights

Although the advent of the AIDS crisis helped condom sales to soar in the '80s, drug store sales remained flat last year, manufacturers told *Drug Store News for the Pharmacist.*

While drug stores still capture nearly 70 percent of condom sales, many are starting to see these sales slip, as a result of increased competition from food store outlets.

"Condoms aren't taboo in food stores anymore," said Marie Kraemer, product manager for Ansell. "We're seeing some real potential growth in the food store market."

However, these sales don't necessarily mean growth for the condom market as a whole, say manufacturers. The increase in sales is due primarily to the shift between outlets, rather than more consumer purchases.

Traditional condom outlets, such as drug stores, are seeing a decline as food stores start to increase their piece of the retailing pie, but the overall category growth is flat, as compared to a few years ago.

'It can't happen'

With the AIDS crisis still clearly in the picture, why aren't consumers taking precautions?

Manufacturers claim it's because people still have the "It can't happen to me" attitude. And, with so much emphasis on AIDS, consumers are less worried about other sexually transmitted diseases (STDs).

"People are just going to have to take care of themselves with safe sex," said Mark Silverman, vp, sales and marketing for Safetex Corp. "Sure, people take the Pill to reduce the risk of pregnancy, but the Pill doesn't prevent AIDS and it doesn't prevent other STDs."

More education is needed to help consumers become aware of the risks, manufacturers emphasized. School systems around the country are now allowing the distribution of condoms from school nurses, and manufacturers repeatedly show up on beaches to emphasize safe sex to spring break party-goers.

However, ultimately the best avenue to reach consumers is by television—a place where condom ads are banned except on a few cable channels.

Other media tried

Manufacturers have tried to make up for the lack of TV advertising by placing ads on radio and print media outlets. While they say their messages are being heard and seen by millions, they agree that television is a sure way to reach the majority of consumers.

"Television is a major medium in this country and a sure way to get your message across," said Mark Klein, vp-marketing for Carter Products. "We've had a lot less problems with radio and print outlets. AIDS has helped bring the issue to the forefront and has given us some avenues to work with.

"Sure, you can say 'eventually' we'll probably be able to run TV ads," he continued. "But who knows when 'eventually' is? We think there is enough reason now to allow condom advertising. One in five Americans have had at least one STD. One in twelve teens risk an unwanted pregnancy each year. Isn't that a good enough reason?" ☐

Most frequently advertised condoms Top 50 drug chains June 1990 - Dec. 1990

Brand	% of total condom ads
Trojan	45%
Titan	18
Ramses	13
Sheik	10
Lifestyle	4

Source: Ad Activity Marketing Services, Inc., Springfield, IL

Condoms protect gun barrels from sand

Condoms were very popular with the soldiers in the Persian Gulf War. After a letter of appeal from the wife of a Saudi-based soldier who was complaining about sand, several manufacturers sent their products over to be fitted over the barrels of M-16 rifles. The condoms kept out the blowing sand and prevented the guns mechanisms from becoming clogged.

Condom dollar sales in drug stores

1989	1990
$165.8 million	$173.2 million

Units sold in drug stores

1989	1990
96.9 million	94.2 million

Source: A.C. Nielsen

Glucose monitor prices are easier on wallets

'90 OTC Highlights

At-home testing kits have gone the way of electronics. As the technology advances, the units get less expensive and more accessible to the average consumer.

Blood glucose monitors have had swift sales since prices of new easy-to-use brands have made purchasers from customers who previously could not afford the meters.

New brands, such as Ames' Glucometer III, which retails for about $50, are selling for literally nothing when the frequently issued consumer rebates are factored in.

Price wars

"The reduction in prices started as a price war between Boehringer Mannheim and Ames," said Terry Lehman, buyer for Peoples Drug Stores, now a part of CVS.

"Two years ago when units were $120, the companies were offering $75 manufacturer rebates. It doesn't surprise me that they are giving the monitors away. They are counting on the sale of the replacement strips to finance the meters."

It seems to be working. Dionne Tronn, manager of corporate communications for Ames, said the sales of Glucometer III, introduced a little over a year ago, surpass the sale of all other meters combined. Retailers don't believe this is an overstatement.

Jodi Davis, a buyer for Thayer Pharmacies, a 31-store Massachusetts chain, said the chain sells about 30 of the Ames meters at regular price. That number jumps to about 65 when the meter is on sale.

While retailers are selling the meters at a low profit margin they are certainly not using them as loss leaders. Sales of the meters leads to repeat business from good customers.

"People with diabetes are good customers, but they shop around because they have so many health expenses," said a buyer at mid-sized California chain. "We don't take a large mark-up on the meters because we want to remain competitive." The increased business they get from the sale of replacement strips for the meters, which cost an average of $50 a package, is helping their bottom lines.

To drum up the business, many chains are aggressively promoting company rebates in ads. Stephen Bishop, buyer at Bill's, a 26-store California chain, said the chains' ads promote the "free" meters. He says the sales of the meters has nearly doubled since he introduced Ames' Glucometer III to his mix. "When we promote the Glucometer III it outsells other meters five to one," said Ken Chochol, buyer at Michigan's Perry Drug.

One California chain regularly sends out a targeted mailing promoting blood glucose meters to physicians and patients. "We have a list of people with diabetes by zip code and we mail promotional material to them," said the buyer. "We also send a letter to physicians explaining that this is a product we have been targeting to their patients."

Most retailers are carrying an average of three meters and are concentrating on offering the ones with the lowest price tags. Said Perry's Chochol: "We've discontinued the higher priced meters. Manufacturers are restructuring the high end units so that they are beginning to sell in the $90 range rather than at $120." ☐

Faster pregnancy testing kits outsell the rest

Pregnancy testing kits are being driven by products which have become easier to use. Kits which show results in three to five minutes are outselling kits with a longer wait time. In fact, Warner Lambert has discontinued its EPT test with a 30-minute waiting time in order to concentrate on its four-minute product.

Stephen Bishop, buyer at Bill's, estimates that sales of pregnancy test kits have doubled there over the past year. "Products that are easier to use plus aggressive promotion by manufacturers is driving the category for us," he said. The problem for retailers is that with so many products on the market, how can the stores stock them all?

"No item has more than one facing," said Bishop, "but we stock at different degrees of depth. Our typical store carries five or six different brands. That's about double what we carried two years ago."

Broad assortment

Page Ilderton, buyer at Kerr Drug, is currently carrying 10 different brands in the family planning section. "We carry practically everything on the market," said Betty Swansinger, buyer at Discount Drug Mart. Whitehall's Clearblue Easy and Carter Wallace's First Response products were cited by many retailers as good performers. Both have a wait-time under four minutes.

Thayer's Davis said her chain sells 100 units of First Response a month. Clearblue Easy's single and double both have sales of 56 units a month at the chain. By comparison, Davis said that even those tests which take 30 minutes to get a result are selling at 35 units a month. Those sales may be contingent on price since the shorter time kits can cost twice as much. "Sales of the 30-minute products have really lessened," said Kerr's Ilderton.

Retailers say that it's not just the ease of use that's driving the category; promotion by the manufacturer also plays a large part in sales. Said Terry Lehman of Peoples: "This category is supported by the vendors that support their products the most."

Those companies which are putting their money into keeping their prices low but allowing retailers to make margins are selling well." Advertising makes a big impact, said Lehman. Manufacturers agree. "EPT may be a market leader because of advertising," said Tom McMillian, product manager for the Warner Lambert product. "These kits are not an impulse item."

Ovulation kits flat

Nor are ovulation testing kits, which seem to be faring the least well in this category. Buyers cite the expense and the time involved in using the product as two possible reasons. Still, they are carrying the kits.

"Ovulation kits are still moving slowly," said Lehman. "There's a lack of advertising in this category and they are extremely expensive, generally in the $24 to $34 range." Ilderson said Kerr carries three brands of ovulation kits, although sales are slow. Thayer's Jodi Davis is moving 30 First Response ovulation kits a month despite their $25 price tag.

Bishop said Becton-Dickinson's Q Test is the fastest seller at Bill's. "The product is easy to use, although it's certainly not the least expensive," he said.

Retailers are placing both pregnancy and ovulation test kits out where customers have easy access to the products despite the risk of theft. "If they can reach it, they can steal it," said Bishop. "But if we put the kits in the pharmacy, we would definitely lose sales." ☐